# RECREATION RESIDENCES ON NATIONAL FOREST LANDS

## AN ANALYSIS OF POLICIES AND ISSUES

November-1980

Policy Analysis
USDA Forest Service

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RECREATION RESIDENCES ON
NATIONAL FOREST LANDS:
An Analysis of
Policises & Issues
November, 1980
USDA-FS by Various Authors

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# EXECUTIVE SUMMARY

The National Forests serve the American people in many ways. Recreation residence use is, but one of many recreation experiences enjoyed on National Forest System lands. However, private exclusive use of the National Forest has been and continues to be the subject of much debate and concern.

Skyrocketing land values in the private market are resulting in fee increases. Uncertainty regarding future use of the permitted site is causing concern among a considerable number of permittees and homeowners.

Among the many policy issues involving recreation residence use perhaps three or four may be described as "major" or "pressing" to one degree or another. This report examines four "major" issues affecting this use of the National Forest--fees, tenure, year-long occupancy, and subleasing.

Every policy issue is controversial, if not, there would be no issue. In an attempt to specifically define the concerns we asked nine homeowner associations to comment on these issues. Representative associations were selected to provide at least one sample from each Forest Service Region, except Regions 9 and 10. Two associations were selected in Region 5 (California) since more than 42 percent of the

total recreation residence permits are issued in this State. In addition, we invited comments from the National Forest Recreation Association.

## Development and Administration of Recreation Residence Policies on the National Forest

Congressional legislation dating back to 1897 gives the Secretary of Agriculture the authority and flexibility to establish "regulations as he may make and upon such terms and conditions as he may deem proper," under this framework recreation residence use is permitted on the National Forests.

Subsequent legislation provided additional direction permitting "use and occupancy of...the National Forest...not exceeding thirty years, for the purpose of constructing and maintaining summer homes...." Congress addressed the conflicting use in legislation by constraining the Secretary's authority. The Act of March 4, 1915, states: "the authority provided by this paragraph shall be exercised in such a manner as not to preclude the general public from full enjoyment of the...National Forest."

The Office of Management and Budget has issued several circulars directing Executive Departments to charge fees representing fair market value for the use of Federal lands and resources. The Forest Service currently utilizes professionally prepared appraisals of land value as the basis for determining recreation residence fee levels.

Within this legislative framework, the Forest Service has administered recreation residence permits since the early 1900's. Today, there are about 16,100 recreation residences on the National Forests in 25 States and Puerto Rico.

One of the most controversial elements of the Forest Service recreation residence permit policy is the subject of fees. During the 1920's, fees were generally quite minimal, usually $5 or $10 per year. Since that time, the value of private lands used for second home sites has increased significantly.

Based upon 1980 data, annual recreation residence permit fees ranged from $25 to a high of 2,425. Over one-third of the fees collected in 1980 were between $100 and $199. Approximatley 74 percent of the annual fees are less than $300. Total fee collections in 1980 totaled approximately $3,933,000.

As was found throughout this review, each issue is somewhat distinct and separate, yet closely related. Issues overlap or intertwine with others. This is particularly evident with fees and tenure.

Issue: Tenure

The uncertainty associated with recreation residence permit tenure is a very real concern to many permittees. Uncertainty finds as its cause many factors, such as: lack of permittee knowledge or understanding of Forest Service objectives, policies, and regulations, or the inability of Forest Service administrators to adequately articulate these elements; ambiguous language in the general provisions of the special use permit; understanding of the mechanics and the intent of the policy. The five options modeled to address the tenure issued are:

— Retain current tenure policy.

— Shorten maximum tenure and reduce notification period prior to termination.

— Every 10 years, issue a new permit with its term based upon projected planning needs.

— Issue 30-year term permit with optional 10-year extension.

— Give a minimum term of 10 years to the purchaser of a recreation residence.

Issue: Year-Long Occupancy

As housing costs escalate, some permittees are attempting to occupy their vacation site as a permanent residence. Year-long occupancy

impacts local governments, creates additional impacts on the environment and is not in keeping with the intent of the authorizing legislation. Three alternatives were considered:

-- Continue existing policy;

-- Permit limited year-long use; and

-- Permit year-long use without constraint.

Issue: Subleasing

Some homeowners in an attempt to offset a portion of their expenses, have occasionally rented their recreation residence. Under current policies, permittees may now sublease and rent their residence, after securing approval.

There is not a consistent Service-wide policy regarding the amount of rental the permittee may receive. In addition, there are several definitional problems that need clarification.

Two advantages of subleasing or renting recreation residences are: (1) financial return to permittee, and (2) extends use to greater segment of public. The options considered are:

-- Continue existing policy.

-- Encourage permittee rental of recreation residences.

-- Extend rental through third party management.

Issue: Fees

No single issue commands more attention and discussion than does the issue of fee. This issue centers around the question--How much should be charged for private exclusive use of National Forest System lands? Fair market value is to be charged for the use of Federal lands, according to various statutes reflecting Congressional intent. Executive direction, conveyed through the Natural Resources Users Charges study, added support to the premise of fair market value.

The continuing rise in value of recreational lands and the 5-year appraisal cycle combine to create pronounced fee increases. In an effort to reduce the impact of fee increases on permittees, fee increases of $75 or more are spread over a three-year period. Phasing is an obvious financial benefit to homeowners. In essence, permittees pay for "four years and get one free." Over a five year period, the revenue loss to the public could range between $800,000 and $3,000,000.

Several models were considered as alternative methods to determine and change fair market value fees.

— Continue current method.

— Establish fees through competitive process.

— Indexed annual adjustment.

— Cost approach.

— "Leasehold" value basis.

— Common fees for similar lots within the same area or State.

— Defer a portion of the annual fee for later payment.

— Assume title to improvements in exchange for reduced fees.

— Reduce annual fee payment in exchange for a percentage of the appreciation.

-- Adjust the standard fee rate based on the season of use and accessibility.

The principles underlying present recreation policy were framed through legislation that is still appropriate today. The authorizing statutes provide direction and explicit intent regarding recreation residence use of the National Forest. Subsequent legislation and executive direction clearly state the basis for establishing fees for this type of use.

The ten options developed through this review are structured to present a particular approach to the issue so that its advantages and disavantages would be apparent. No single option will meet all the needs of expectations of the permittees. Accordingly, it seems a combination of several options may prove to be the most reasonable approach to address the various issues.

It should be kept in mind that these options were developed with input from permittee organizations and Regional Forester Staff units. Other user groups have not commented on these issues. The choice of a policy option for recreation residence use includes balancing many competing interests and values, not just the concerns and interests of the permittees, which is the major focus of the assessment.

# CHAPTER 1

## INTRODUCTION

Background. The past decade or so has seen the expression of several issues about use of the National Forests. The National Forest Management Act of 1976, RPA, and RARE II are specific results of expressed public concerns. Every policy issue regarding use and management of the National Forest is controversial, if not, there would be no issue; i.e., different persons and different groups have different interests. The management problem is to resolve policy issues by finding ways which most nearly reconcile the numerous and diverse interests.

Recreation residences are but one of many possible uses of National Forest lands. A "recreation residence is a privately built and owned structure, authorized on National Forest land under a special-use permit. It is maintained for the private use and enjoyment of individuals or families and their guests. As a recreation facility, it is a vacation home and is not intended to be used to the exclusion of a permanent residence elsewhere." (FSM 2345.)

Of the various uses of the National Forests, recreation residences have long been in the land use arena, due to a series of complex issues. There are several issues associated with recreation residences, each somewhat distinct and separate, yet closely related to others. Decisions on one issue may greatly affect positions on other issues.

To simply define or state policy issues surrounding recreation residences is difficult, since this use is but one point on a continuum of recreation opportunities. The discussion that follows is not neatly logical; some issues seem to overlap or intertwine with others, such as fees and tenure. Nevertheless, it is useful to outline several more or less identifiable issues which concern recreation residence use of National Forest System lands. Specifically, these issues are fees, tenure, year-long occupancy and subleasing.

From an early beginning in the 1900's, recreation residence use has grown steadily until there are now approximately 16,100 recreation residences on National Forest System lands. Existing policies have developed incrementally and are the results of several pieces of legislation and subsequent regulations. Early policies reflected the needs of local forest officers. It was not until the latter part of the 1920's that firm National Forest recreation objectives were developed.

Recreation residence policies were conceived and evolved under conditions which no longer necessarily match or reflect the demand of today's lifestyles. Likewise, land management goals are dramatically different today than they were 75 years ago. As economic and social conditions changed, so did public desires.

Current issues over various land use policies are evidence of changes in the economy, change in where people live and in life

styles, and change in consumption. These issues also reflect growth--population growth, economic growth and prosperity, and growth in disposable income. The impacts of growth are reflected by increased demands on the National Forests. In some areas, increased use has created new demands for public use of sites presently occupied with recreation residences. As permittees and other recreationists experience the reality of a limited resource, conflicts related to public use versus private use will continue to increase. In the private market, these growth impacts are reflected by the dramatic changes in land values.

As land values in the private sector increase, the fees charged for recreation residences on National Forest lands have increased. In a recent private market survey, the American Land Development Association found that since 1972 the average lot value has increased about 125 percent. These market trends have caused permittees to express considerable concern over the fairness of the fee structure. The permittees ask the question--What is fair value?

This review was initiated to address these issues. It stems from a discussion and proposal by the Directors of Lands, Recreation, and Policy Analysis to review several aspects of the Forest Service recreation residence permit policy. The study defines the concerns of both permittees and Forest Service administrators regarding current policies associated with fee levels and methods of determination, tenure, year-long occupancy, and subleasing of recreation residences.

Objective

The purpose of this review is to evaluate several aspects of the Forest Service's recreation residence policy to determine if there might be other policy options that could be more responsive to legislative intent and current regulations. Although this review examines specific recreation residence issues, these issues represent only a small segment of other interrelated land use problems.

The National Forest Recreation Association, Homeowners Division, suggested another objective of this review should be:

> "that permits will unambiguously state the intent of the parties, and their rights and obligations. Emphasis should be placed upon simplified usage and elimination of words and phrases that could be interpreted in more than one way."

More specifically, the objectives are to:

- Explore alternatives for setting fees which would be fair to both the permittees and the public.
- Determine whether current year-long occupancy policies are adequate and appropriate.
- Determine whether current tenure policies are adequate and appropriate.
- Examine the desireability and consequences of allowing permittees to sublease recreation residences beyond that currently stated.

These objectives imply clear identification of concerns and problems of both the permittee and the administrator. It was necessary to initially identify the different points of view held by permittees and managers. The four issue areas serve two purposes: (1) they form the basis for evaluating various aspects of the policy; and (2) they form a point of departure for developing alternatives.

These four issues do not include all of the issues of the recreation residence policy that face the Forest Service today, but they include the "major" issues reflected through Congressional and permittee correspondence. These issues were validated by several representative permittee organizations in the fall of 1978.

Nine homeowner associations were asked to share their perspectives and concerns regarding National Forest recreation residence policies. Five associations provided written comments on these four issues. Two representative associations were selected in Region 5 (California) since more than 42 percent of the total recreation residence permits are located in this State.

Forest Service line and staff officers were also asked to identify management problems associated with existing policies and to suggest possible solutions to the situations they experience. Appeal cases, hearing testimonies, and correspondence relating to recreation residence policies provided additional background material. From this background material and the comments from permittees and administrators, specific concerns in each of the four issue areas were described.

An essential premise of this assessment is that "recreation residences in established tracts will continue to be recognized as a valid use of National Forest land, unless and until a determination has been made that the lot involved is needed for a higher priority public purpose or should be vacated for some other specific reason." (FSM 2345.03.) The important question regarding the specific mix of land uses must be answered in Forest land management plans. Therefore, no attempt is made to discuss the merits of continuing or discontinuing recreation residences on the National Forest.

# CHAPTER 2

## DEVELOPMENT AND FORMATION OF RECREATION RESIDENCE POLICIES ON THE NATIONAL FORESTS

The National Forests have many "owners" with divergent views as to how the Forests should be used and managed. The National Forests belong to all the people of the United States; however, some people are in a better position to use them than are others. Some take more interest in the management than do others. The recent RARE II effort reflected an expression by the public of one aspect of National Forest management.

Like all public lands, the National Forests are governed by legislation which, in a democracy, reflects the desires of the public. Legislation broadly defines the purposes for which the National Forests exist. These broad and sometime vague phrases are interpreted, made more specific, and supplemented through Department regulations and administrative direction.

### Congressional Action

Congress extensively debated the "purposes, uses and objectives" of the Forest Reserves during the late 1800's.

The Forest Reserve Act of 1897 was "compromise legislation" specifically enacted to modify previous actions of President Cleveland.

The Organic Administration Act of 1897 authorized the Secretary of Interior (later the Secretary of Agriculture) "...to make such rules and regulations and establish such services as will ensure the objects of such reservations; namely, to regulate their occupancy and use...." This is the basic broad permissive authority under which annual or terminable permits are issued.

The Act did not indicate what uses would be permitted or prohibited. During the floor discussion in the House, it was recognized that the administrator of the Forest Reserves had to be given wide discretion in the operation of the system:

> "...in this respect a wide discretion ought to be lodged with the Secretary...the power to adopt some sensible regulations adapted to the necessities of such locality ought to be lodged somewhere...."

The Agriculture Appropriation Act of 1915, often referred to as the Term Permit Act, authorized the Secretary of Agriculture to issue permits for terms of 30 years for the construction of summer homes. The Act permitted:

> "...under such regulations as he may make and upon such terms and conditions as he may deem proper...the use and occupancy of suitable areas of land within National Forests, not exceeding five acres and for periods not exceeding thirty years, for the purpose of constructing and maintaining summer homes and stores...."

The Act also included a provision that permits be:

> "...exercised in such a manner as not to preclude the general public from full enjoyment of the natural, scenic, recreational and other aspects of the National Forests...."

This Act, thus, becomes the principle yardstick to be used to determine or adjust summer home use on the National Forests. It specifically instructs the Secretary of Agriculture to ensure that summer homes do not prevent or hinder full public use and enjoyment of the National Forest. It should be noted that the yardstick is to be used to adjust conflicts between these uses. The hearings record, indicates that permits would be granted "so as not to interfere with" other uses of the National Forests. The implication is clear that summer homes are subordinate to the other uses of the National Forests.

The statutory language in the Term Permit Act explicitly determines use preferences of the National Forests. Private, exclusive use of the National Forests may be permitted for periods up to 30 years as long as public use is not restricted. The Term Permit Act provides authority to issue permits, granting tenure or use up to 30 years.

The Act of March 30, 1948, is specific to Alaska and authorizes the Secretary to "permit the use and occupancy of National Forest lands in Alaska for purposes of residences, recreation...not incompatible with the best use and management of the National Forests," not to exceed 80 acres and 30 years duration. Only terminable or annual permits are issued under this authority.

The Multiple Use-Sustained Yield Act, the Act of June 12, 1960 (74 Stat. 215, as amended, 16 U.S.C. 528-53) authorized and directed the Secretary of Agriculture to:

> "develop and administer the renewable surface resources of the National Forests for multiple use and sustained yield of several products and services obtained therefrom."

This is not a "permitting" authority. Rather it expressed the intent of Congress by confirming the long standing multiple use-sustained yield idea of "the greatest good to the greatest number in the long run."

Congress has given direction on fees and charges for use of Federal lands and categories. Land management agencies have been vested with policymaking responsibilities concerning fees and charges. Application of agency policies have been carried out as part of the management discretion authorized through various delegations.

Through The National Forest Management Act of 1976, Congress has directed the Forest Service to prepare "Forest Plans" for all National Forests by 1985. The Forest Plan is a comprehensive land and resource management plan which will guide natural resource management activities on all lands administered by the Forest Service. A Forest Plan is a single integrated plan for all uses of National Forest lands; including timber, range, water, fish and wildlife, and recreation.

The Forest Plan is intended to develop and display management direction for all activities which take place on specific National Forests. Since the plan is an issue driven process, public involvement is an integral part of the planning process. Identification of local issues is one of the critical steps in the planning process and sets the stage for the entire Forest Plan.

This legislation and process is critical in addressing many of the specific tenure problems on various National Forests.

Two additional statutes--The Independent Offices Appropriation Act (IOAA), and the Federal Land Policy·Management Act--reflect Congressional direction towards fees. These two statutes indicate that the policy objective Congress has identified supports fair market value.

The Independent Offices Appropriation Act of 1952, often referred to as the User Fees and Charges Act, prescribes several factors that all agencies must consider in setting fees. Title V of the Act states in part that:

> "It is the sense of Congress that any...benefit, privilege, permit, use, or similar thing of value of utility...granted...by any Federal agency is authorized to prescribe therefore such fee, charge, or price as he shall determine...to be fair and equitable taking into consideration direct and indirect cost to the Government, value to the recipient, public policy or interested services, and other pertinent facts..."

The Courts have interpreted that the IOAA supports the notion of agency responsibility to the public to obtain fair market value for the sale or lease of Federal lands or resources. Value to the recipient is the same standard as the fair market value. Theoretically, "value to the recipient" should be determined by the creation of a market value through a process of open bidding. Where this is not practical, the private market value of the service acts as a self-defining measure of the values to the recipient" for the purpose of setting fees under the IOAA.

The second statute, The Federal Land Policy Management Act of 1976, reinforces Congressional support toward fair market value. Section 102(a)(9) of the FLPMA provides that:

> "it is the policy of the United States that...the United States receive fair market value of the use of the public lands and their resources unless otherwise provided for by statute."

The language of these statutes clearly expresses the intent of Congress to establish fees that reflect the fair market value. When fees are set below market value, the government loses potential revenue and inequity is created between those citizens who receive the price advantage and those who do not.

Executive Direction. The Bureau of the Budget (now OMB) issued guidelines in Circular A-25, directing Executive Departments to:

1. Charge fees representing fair market value as determined through "sound business management principles and so far as practical in accordance with commercial practices. Charges need not be limited to the recovery of costs; they may produce net revenues to the Government."

2. The provisions of the Circular covered "all Federal activities which convey special benefits to recipients above and beyond those accruing to the public at large."

Evidence of inconsistencies in the application of the policies set out in A-25, indicated to the Bureau the need for further guidance to ensure that agencies carry out the policies more consistently. Accordingly, in 1964 the Bureau released Natural Resources User Charges: A Study.

The study was intended to provide guidelines to all Federal agencies for developing an equitable system of user charges for all types of natural resource areas. For summer home sites, the study indicated:

> "the Government should recover the fair market value for the use of Federal land resources. Competitive bidding will be used to establish the fair market value in all instances where an identifiable competitive interest exists. Fees and charges for long-term use should be established in such a manner as will allow for periodic timely adjustment."

"If the application of these principles result in the establishment of a charge or in an increase in a charge of such magnitude that its immediate full imposition would be impractical, the charge or increase should be achieved progressively over a reasonable period of time."

USDA Direction. Exercising his legislative authority, the Secretary of Agriculture issued Regulations 36 CFR 251.52 and 36 CFR 251.57. These regulations cover special uses and charges related to the issuance and administration of special use permits, including those authorizing recreation residences.

Regulation 36 CFR 251.52 describes special uses and authorizes the Chief of the Forest Service to issue special use permits. The regulation provides the Chief latitude to issue permits "in such form, and contain such terms, stipulations, conditions, and agreements as may be required. . ."

Regulation 36 CFR 251.57 provides that special use authorizations shall require "the payment in advance of an annual rental fee as determined by the authorized officer. The fee will be based on the fair market value of the rights and privileges authorized as determined by appraisal or other sound business management principles." This has long been interpreted to mean the charges should be the amount that, (1) a private landowner would receive for allowing similar privileges under comparable conditions or (2) the amount which the Government would receive under competitive bid procedures.

A recreation residence is by law a "recreation" facility. Therefore, the residence may be used for either summer or winter recreation use, or both, but not to the exclusion of a permanent residence elsewhere. One of the increasing problems today is the expanding desire to make use of summer homes as a principal residence which is in direct conflict with established policy and terms of the permit.

The FSM 2345.2 states it is:

> "entirely appropriate to include in the new permit a clause that will make it clear that if at any time occupancy becomes residential in nature to the exclusion of a home elsewhere, the term permit will become void and be replaced by an annual permit".

This paragraph is an ineffective deterrent to year-long occupancy. In actual practice there is not a great difference between a term and annual permit. Year-long occupancy is in fact a breach of the conditions of the permit. The point of the policy should be to eliminate year-long use, not accept unathorized use by default and reissue an annual permit. This problem will be discussed more extensively later in this report.

A single family may hold only one recreation residence permit. While more than one family may have an interest in the facility, the permit is issued to one individual.

Permittees are not allowed to use their recreation residence chiefly as rental property. Current policies permit occasional rental, pro-

vided it is incidental to the permittees personal use. Recreation residences are not to be used for business or commercial purposes. Keeping horses, livestock or chickens is not permitted.

It is Forest Service's policy to provide recreation opportunities based on the following priorities:

-- sites suited for public recreation facilities,
-- sites needed for dispersed area use,
-- sites for commercial public recreation facilities, and
-- private use of public lands--summer homes.

There is some confusion regarding the specific meaning of "rental" as used in the FSM and the term "sublease" as used in provision 17 of the permit.

There are two types of permits for recreation residences, terminable or annual permits and term permits. Terminable or annual permits are authorized by the Act of June 4, 1897. This Act was the initial authorization for recreation residence sites. Term permits are authorized by the Act of March 4, 1915, and create recognition of tenure not conveyed by a terminable permit.

"Tenure" refers to a provision of policy that ensures use of the site for recreation residence purposes for a specific period of time. In the context of term permits, tenure involves an exclusive right of use which requires compensation for the value of the improvement if ter-

minated earlier than the period of tenure stated in the permit. Tenure also relates to the time remaining under a permit following notification that it will not be reissued or extended beyond a specified date. In this situation the permit is said to be "on tenure".

The current summer home policy guarantees permittees at least ten years notice before termination of their permits, however, if the Government terminates within the period of the term permit, the permittees must be paid for their improvements. Upon a determination of no foreseeable need for recovery of these sites, permittees can be offered 20-year term permits. Holders of 20-year term permits could look forward to an additional extension of up to 10 years, unless they were notified to the contrary within the first 10 years of the permit period. The Forest Service policy is equivalent to providing a 10-year notice of termination of permits. The policy maximizes tenure up to 30 years from the date the permits were reissued for the site, if planning indicates that the lands will not be needed for a higher public purpose during the period.

The offering of 20-year term permits to replace annual or terminable permits on recreation residence sites was initiated to allay misconceptions about tenure covered by annual permits. Additionally, some permittees and associations requested a definite term of occupancy. Offering term permits requires an extensive review of each area. Long-range land use needs and objectives must be discussed in terms of a comprehensive forest land management plan.

One of the most significant segments of the Forest Service recreation residence policy is the aspect of fees. The Forest Service policy is that an equitable fee be charged. The Forest Service has tried various approaches to develop reasonable and equitable fees for recreation residences. During the early 1920's fees were determined empirically and were generally quite nominal, $5 and $10 per year. In that period, there were probably no other lands leased for recreation use; consequently, comparison of rates could not be used as a basis for fee determination.

In the 1940's, the first significant record of comparable land sales became available. Since the 1950's a substantial vacation home market has developed, however, very few lots in the private market are leased. Consequently, it has been necessary to apply a factor to sales prices to arrive at a commensurate annual lot rental or fee.

Following the direction of the General Accounting Office, in 1963 appraisals were conducted to establish land values for permit sites. Permit fees equivalent to 5 percent of the appraised value, resulted in substantial fee increases.

Fees for recreation residences are determined on the basis of land useage for recreation residence purposes. Normally fees will be uniform throughout a tract. Forest Service Manual 2721.23e states:

> "the responsibility for setting fees rests with the Forest Service. Recreation residence fees are based on 5 percent of the fair market value of the permitted lots. The value of the

lots, in the condition as offered to the permittees (usually undeveloped and unimproved), is determined by comparison of the amenities provided by the physical characteristics of the lots and other lots to be used for similar purposes. These characteristics include character and usability of the land, proximity of attractions (lakeshore, view, etc.) or detractions, climate, accessibility, availability of utilities and services, etc. Since the policy is to charge uniform fees within a tract or category of lots, appraisals will not be made of individual lots. Rather, a typical lot within each tract (category) will be appraised without regard to minor differences between lots of the same essential character."

The appraisal of lot values does not include adjustments for normal permit constraints and restrictions. The use of 5 percent rather than the higher rates of return expected in the private market provides an allowance for permit stipulations, including, but not limited to (1) restricting use to recreation residence purposes for single-family use; (2) requiring prior approval for changes to the lot or structures; (3) complying with regulations, laws and ordinances; (4) protecting the natural resources and scenic and esthetic values; (5) protecting the public health, safety and welfare; and (6) recognizing the terminable nature of the permit."

Past market data indicates land developers commonly expect returns of 7 to 12 percent of the raw land value. This rate of return may be

even higher with today's increased interest rates. The Forest Service has selected and used five percent. This is generally lower than the rates charged for similar use of private land or by some States who lease lots. It is generally held to be an equitable rate which attempts to reflect fair market value and the restrictiveness of the special use permit.

Term permits provide for fees to be adjusted at five-year intervals. Terminable or annual permits may be adjusted each year. Current policy requires review and adjustment at five-year intervals. At least 18 months before a fee review is due, all permittees that will be affected are notified. Permittees are encouraged to submit sales data or other information they might have that will help in arriving at a fair appraisal and value for the use of the land.

No differentiation is made in charges for term or annual permits. The fees reflect the value of improvements, such as roads and water systems, that have been provided by the Government. This is generally accomplished by using transaction evidence in fee appraisals from the sale of comparable lots having similar benefits.

Forest Service policy provides for active involvement by permittees early in the appraisal process. When appraisals are completed, the Forest Supervisor makes the results available to the permittees, both in terms of land values developed and fees based upon them.

This notice is given at least nine months before the effective date of the required adjustment. Each permittee is advised at this time of

their right to appeal under the appeal regulations. Simultaneously, the results are made known to user groups and interested members of Congress. If there is a significant increase in the annual fee ($75 or more), the permittees are notified that the increase will become effective gradually over a three-year period. In addition to individual contacts with permittees and associations, one or more open meetings are held to discuss the review, new fees, and to solicit value data. These discussions are designed to provide permittees an understanding of the appraisal process and the resulting fee.

## Recreation Residence use and Statistics

Recreation residence use of the National Forest has been a long established practice. Recreation residence permits were issued in many National Forest areas before significant demands for public recreation facilities became evident. In a 1917 report, Recreation Uses on the National Forests, Frank Waugh discussed summer home use on several National Forests. On the Angeles National Forest, he reported "a narrow canyon with a few natural advantages for the development of summer homes...the citizens of these towns (Los Angeles and Pasadena), however, seem so anxious to find a retreat anywhere in the mountains, that they have taken up every available inch of space."

This section presents a quantitative overview of recreation residence development on the National Forest--the number, location and fee ranges. Included is a discussion of tenure, types of permits, and a description of market characteristics. Many private sector activities create significant impacts on National Forest recreation residence permits. Estimates of market trends help to provide a better perspective of market impacts on Forest Service permits.

The estimate of recreation residence permits was developed from the Land Uses Reports System (LUR). The totals used in this analysis reflect 1980 conditions.

Number and Locations Beginning with a few early requests for recreation residence sites on National Forests, the number of permits

expanded until 1963. The number of occupied sites increased from 15,089 in 1947 to 19,406 in 1963.

Recreation residences are currently located in 25 States and Puerto Rico and are distributed as follows:

| | |
|---|---|
| Alaska | 187 |
| Arizona | 1,066 |
| Arkansas | 52 |
| California | 6,796 |
| Colorado | 623 |
| Florida | 178 |
| Georgia | 40 |
| Idaho | 704 |
| Kentucky | 16 |
| Louisiana | 86 |
| Michigan | 209 |
| Minnesota | 487 |
| Montana | 771 |
| Nevada | 137 |
| New Mexico | 307 |
| North Carolina | 26 |
| Oregon | 1,662 |
| Pennsylvania | 54 |
| Puerto Rico | 23 |
| South Dakota | 167 |
| Tennesse | 77 |
| Utah | 724 |
| Virginia | 5 |
| Washington | 1,026 |
| Wisconsin | 29 |
| Wyoming | 649 |
| | 16,101 |

The three Western States, California, Oregon, and Washington contain about 59 percent of the recreation residence permits. Approximately 42 percent of all the recreation residence sites are located in California. The distribution of permits by Region is shown on page 32.

Fees

During the early 1920's, permits for recreation residence sites on the National Forest ranged between $3 and $15 per year. In that era there was little demand for leased lands for recreation residences in the private sector; consequently, comparison of rates could not be made.

Currently, annual fees vary by the location, quality, and type of available amentities. Lake and view lots are in high demand in the private market, and as a result, they command premium prices. This fact is subsequently reflected in recreation residence fee levels. The range of fees paid in 1980 varied from $25 to $2,425. The average fee paid was $244. About 74 percent of the permit fees were less than $300 and about 2 percent were over $600. Over one-third (37 percent) of the 1980 fees ranged between $100 and $199. Collections from recreation residence fees in 1980 totaled approximately $3,933,000. The Regional data is as follows:

| Region | Number of Permits | Fees Collected 1/ | Average |
|---|---|---|---|
| 1 | 935 | $ 335,000 | 358 |
| 2 | 1,301 | 318,000 | 245 |
| 3 | 1,373 | 248,000 | 181 |
| 4 | 1,539 | 315,000 | 205 |
| 5 | 6,796 | 1,787,000 | 263 |
| 6 | 2,688 | 569,000 | 212 |
| 8 | 503 | 118,000 | 234 |
| 9 | 779 | 209,000 | 268 |
| 10 | 187 | 34,000 | 180 |
| | 16,101 | $ 3,933,000 | 244 |

1/ Fees have been rounded to nearest $1,000.

A further breakdown of the range of fees paid by $100 increments and collections by National Forests are displayed in Appendix A.

Second Home Market Characteristics

The activity of private recreational land sales has a significant impact on National Forest recreation residence fee levels. Sales and transaction data, form the data base used to determine National Forest recreation residence home fee levels.

Recreational land sales tend to follow cycles determined by broad swings in the Nation's economy. During periods of economic prosperity, recreational land sales increase. The reverse is true during periods of reduced economic activity.

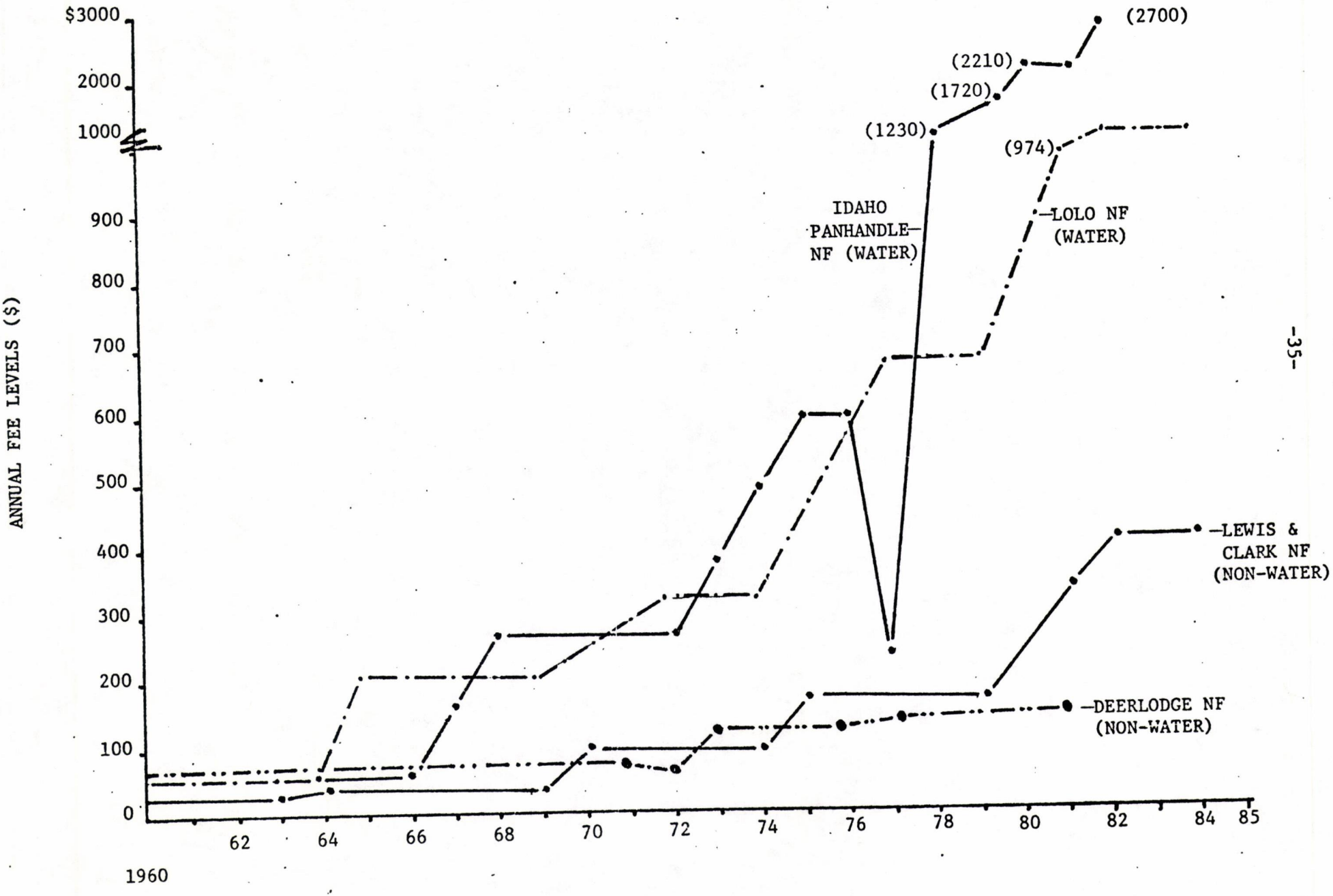
Recreational land sales were heaviest during the late 1960's and early 1970's. In 1971, the American Land Development Association (ALDA) estimated that some 650,000 recreational lots were sold. During the

same period, 1960-1970, National Forest recreation residence fees began to reflect increased market prices.

As the Forest Service fees began to reflect market values, most fees began to show major increases compared to pre-1965 levels. Figure 1 shows the fee changes of several recreation residence sites since 1960.

FIGURE 1. Annual Fee Levels of Selected Recreation Residence Permits.

1960 - 1985



The information reflects the increased values associated with water-related recreation residence sites. In addition, the rising prices also reflect the market demands for comparable sites. A number of factors affect and influence fee levels--population, location, amenities and many other variables.

In the private market, land values have increased dramatically. Information compiled by the American Land Development Association reflects recent value changes.

| | 1972 | 1973 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|
| Average price of lot | $7,300 | $6,548 | $13,634 | $11,650 | $16,344 |

The average lot value has increased about 125 percent in the past several years.

Statistical information regarding the specific volume of recreation land sales in the private market is not complete. However, on data from the Office of Interstate Land Sales Registration in the U.S. Department of Housing and Urban Development, Ragatz has estimated that 9 million lots and 18 million acres have been subdivided for recreational use since 1968. (Ragatz, 1975.)

Trends in second home ownership are also reflected through the Bureau of Census information. In 1960 the Bureau of Census reported nearly 1.2 million second or seasonal homes. In 1976, the Annual Housing survey showed slightly over 2.6 million second homes. The U.S. Department of Commerce, 1976, Ragatz--in a report prepared for the

USDA, Forest Service RPA Assessment--indicated approximately 3 to 5 percent of all households owned a vacation home or recreation lot. (Ragatz, 1978)

It has been extensively documented that the traditional recreational land markets have severely declined since 1973. Although again in the upswing for the past several years, ALDA reports that it appears doubtful that demand will reach the peak of 1969-1973 for unimproved lots or single family detailed vacation homes. Evident reasons include the costs of energy, energy shortages and recently the skyrocketing costs of financing. As a result the private market has shifted toward less costly alternatives such as time sharing, multiple ownership and undivided interests. (ALDA, 1979.)

Resource use Relationships

The presence of a recreation residence on National Forest land, by its very nature, creates potential land management problems. Whether in a compatible relationship or competing, recreation residences bring sharply into focus the problems associated with "multiple-use" on the National Forests. The problems of competition among users has been recognized in public land management for many years. Each of the various publics using National Forest resources has particular interest in the policies affecting their use. In some cases, the interests of different user groups conflict, while in other areas they may coincide or even complement each other.

Occupancy Use Conflicts

Problems of competing uses become difficult to resolve when uses are of a more permanent nature, such as recreation residence. Most conflicts associated with recreation residences often focus on the demands for "higher use."

Congress, through legislative mandates, requires the National Forest be utilized so they will best meet the needs of the American people. The exclusive nature of recreation residences may preclude higher public uses of the National Forests. Constantly changing demands of the American public often conflict with the desire of permittees to gain higher levels of security regarding use. The National Forest Management Act of 1976 and recently published regulations established procedures for implementing an overall program of coordinating various resource uses on the National Forests. Regulations indicate the "thrust of the planning process will be to retain a fair balance of appropriate uses and to reflect the multiple-use consequences of management decisions in the context of the changing priorities of our society."

## CHAPTER 3

## ISSUE: TENURE

Tenure is a very real concern of many permittees. As used in the context of the permit it is confusing. As a result, administrators and permittees alike have conflicting interpretations of the policy and its definition. Tenure relates to the period or term of the permit. It also relates to the time remaining under a permit subsequent to an announcement that it will not be reissued upon termination or that it will not be extended beyond a specific date. In this instance the permittee is said to be "on tenure."

The Term Permit Act of March 4, 1915, authorizes use and occupancy of National Forest lands for periods not exceeding 30 years for various uses, including recreation residences. The Act itself is rather brief. It simply authorizes several types of uses under such conditions as the Secretary of Agriculture deems proper. The 20-year term policy for recreation residences is an outgrowth of the need to set terms and conditions that are equitable to both the permittee and the public. The permittee needs an assurance of conditioned use commensurate with his investment, but not to the point of infringing upon the rights of the public.

Current recreation residence policy guarantees that permittees will receive at least 10-years notice before termination of their permits. This policy was established in 1968 by Chief Cliff during hearings before the House Subcommittee on Forests.

Under the provisions described by the Chief, the Forest Service would notify permittees within the first 10-year period if there is a need to secure termination upon expiration of the 20-year term or anything short of a full 30-year term. If notification is not given during the first 10 years of the permit period, the permit must be renewed for the additional term. Ambiguities and confusing language in FSM 2721.23b have lead to various misunderstandings of the tenure policy.

Should it be necessary to terminate the permit of any of its terms, for reasons other than breach, it is Forest Service's policy to give, if possible, at least 10-years advance notice. If it becomes necessary for the Government to terminate a term permit before expiration, for reasons other than breach, the Forest Service is obligated to compensate the permittee for the value of the improvements.

Permits for recreation residences were initially issued as annual or "terminable." By condition of the permit, it could be terminated for cause or at the discretion of the Forest Service. In the event of termination, there is no authorization to compensate the permittee for the value of the improvements existing on the site. If there is no need for termination, the permit may be renewed upon payment of fees each year and extended indefinitely.

From this provision, many of the early permittees received the impression that they had 99-year leases, since there is no stated time limit placed on the occupancy. Actual occupancy of some reissued permits has spanned more than 50 years.

Uncertainty associated with tenure provisions is undesireable from the permittees and Forest Officers perspective. Undesireable features are that it discourages tract improvements, colors the attitudes of users, and reduces effective communication and cooperation between permittees and Forest Service administrators. From the permittees perspectives there are basically two major sources of uncertainty that relate directly to the tenure policy. These factors are clearly evident in discussions with both permittees and Forest Service administrators.

First, a widespread pattern of attitudes and actions in some locations, over a long period of time, has rightly or wrongly led many permittees to the conclusion that an unwritten policy was in force with the ultimate goal of eliminating recreation residences for the National Forests.

A second major factor leading the tenure uncertainty is the expression and mechanics of the current policy. Some permittee comments reflected that in order to maintain management options, the Forest Service gives "termination notice sooner rather than later, usually with inadequate documentation and supporting information and most often with little planned flexibility...."

Existing recreation residence tracts were initially developed in an era of relatively light use of National Forest lands. Until recently, use and opportunities of the National Forests were considered infinite. Factors such as increased leisure time, improved access and growing demands for other National Forest resources are changing the

outdoor recreation picture. In addition, the increasing number of outdoor recreationists often have varied views and preferences which can lead to conflicts.

Under the direction of the National Forest Management Act of 1976, each National Forests will be preparing a comprehensive Forest Plan. A Forest Plan is a single integrated plan for all uses of the National Forest lands. The critical step in the planning process is the identification of local issues that need to be addressed in the plan.

Through this process tenure questions can be rationally addressed and resolved in an open and objective public forum. Regulations issued by the Secretary of Agriculture require Forest plans to be reviewed every 10 years. This periodic review will provide an opportunity that is responsive to the public's needs and at the same time articulates a clear basis for tenure decisions.

## ALTERNATIVES

These alternatives, like those in the following chapters, were developed after examining existing laws, regulations, current practices, and suggestions made by permittees and Forest Service administrators. These options offer possible solutions to some of the problems and concerns identified and discussed in the preceding section.

Details for implementing these options, such as language changes in the Forest Service Manual are not developed in this paper. The intent is to present alternatives in a general sense, but with enough detail to describe the advantages and disadvantages of the policy option.

### Alternative 1 - Retain current tenure policy.

Under the provisions of the current policy, the Forest Service is required to notify permittees during the first 10 years of the permit period. The permittee can expect an additional 10-year period of use, if notification is not given during the first 10-year period. In addition, permittees are insured of 10-years advance notice before termination of their permit.

The current policy provides a distinct advantage to the permittee. The original permittee can enjoy a period up to 30 years to amortize and depreciate the original investment cost. The assurances and benefits given to recreation residence permittees by this policy are far in excess of those provided for any other kind of use.

A major disadvantage to the permittee is the uncertainty associated with the 10-year notification period. As currently written, it is possible that the permittee would not receive notice that his permit would not be extended until the ninth year. The costs of this uncertainty are reflected in the deterioration of relationships between the permittee and administrator. There also appears to be a tendency for uncertainty to produce a bias towards overconservatism or no decision.

Long-term permits, similar to long-term timber sales create official encumberances on the site. Continued long-term use develops strong personal ties to the site. It is only natural that relationships between the Forest Service and permittees become strained when termination is considered.

An important facet of the tenure policy, that is not articulated in the manual, focuses on how do we deal with permits once they reach the end of the maximum 30-year term. If the permittee is not notified before the last 10 years of the permit, is he entitled to a new permit? It is not clear if the extension provision was intended to continue beyond the implementation phase. These questions could be resolved, in part, by adopting a modification to drop the automatic 10-year extension, but continue to provide at least 10-years notice prior to termination.

Developing tenure decisions from Forest plans will tend to reduce the uncertainty of recreation residence use. This would mean that 10, 20

or 30-year term permits could be granted as appropriate based upon a rational decision process. With proper planning, occupancy uses can be integrated with other uses of National Forest System lands. It is, however, premised upon the fact that recreation residence use must be identified and discussed in the plan. It becomes imperative for permittees and administrators to identify recreation residence use as an issue or management concern to be addressed in the Forest planning process.

Alternative 2 - Shorten maximum tenure and reduce notification period prior to termination.

This alternative would constrain the present policy by reducing the maximum term to a period of 10 years. Instead of a 10-year notice prior to termination, the permittee would only receive 5-years advance notice. This alternative was suggested by the Public Land Law Review Commission in their review of vacation homesites on Federal lands.

The principal problem this alternative would resolve is the length of encumberance created by the present tenure policy. Planning options and flexibility could increase significantly with shorter tenure commitments.

The basic advantage of this policy is to increase planning options due to a shortened period of tenure. A shorter tenure period would reduce response time by reducing tenure obligations. Terms of permits would coincide with Forest Land Management planning cycles.

While this option may enhance planning flexibility by reducing the obligation of the permit length, it also reduces some of the security

inherent in a 20-year term. Permittees holding permits issued under current provisions with 20-year terms would experience a reduced term as new permits are issued.

The established 10-year notification is preferable to the permittees, since it provides a more reasonable period of time for the owner to take steps necessary to bring his residence to an end, should that need be determined.

Alternative 3 - Every 10 years, issue a new permit with its term based upon projected planning needs.

Under the conditions of this alternative, a new permit would be reissued upon completion of the forest plan. Resource uses, needs and demands, based upon a rational planning process, form the basis for determining length of occupancy terms. The planning cycle provides an important opportunity to review, analyze, and validate future use forecasts every 10 years.

A concern expressed by permittees is that once a decision has been made to terminate an occupancy use, the opportunity to review and reconsider the factors and needs leading to that decision are not readily apparent. This option specifically addresses that concern.

This alternative would not foreclose on 20-year term permits. In some cases it may result in shorter terms, and in certain situations it could result in longer term permits.

The advantage of this alternative are built upon its strong relationship to the land management planning process. It provides a visible decision process to either continue or terminate a particular use, based upon demonstrated public needs. One of the principal advantages is to objectively define and bring the public needs into tenure determination.

This alternative would also eliminate the necessity to notify permittees within the first 10 years of the term if the site would be needed at the end of the term for other uses. This determination would be made at the beginning of the term and would eliminate much of the uncertainty and questions among permittees.

The most important advantage of this alternative is that it brings occupancy uses into the planning process and forces the decisionmaker to determine through visible interactions, pressures, and demands, if that particular use is appropriate.

Alternative 4 - Issue 30-year term permits with option 10-year extension.

This alternative was offered by permittees and it provides for the maximum tenure allowed by law. The 10-year extension of an existing 30-year permit could not be granted without a change in law.

Alternative 5 - Grant additional tenure to applicants who purchase permitted improvements to give at least 10 years of use. Additional time would be granted only to the first purchaser.

This alternative would be helpful to permittees who are selling their recreation residences. However, it could delay recapture of the site where permits are under termination.

## CHAPTER 4

## YEAR-LONG OCCUPANCY AND USE

Term special use permits authorize permittees to construct and maintain "a recreation residence for personal recreational use...." During a 1973 study of leisure homes, the President's Council on Environmental Quality (CEQ) concluded that over time, leisure homes are slowly converted into permanent residences, and "therefore should be viewed as a special form of urbanization that generates the same types of economic, environmental, and social impacts as other residential developments."

Information developed during the Public Land Law Review Commission study in 1970 indicated approximately five percent of the permittees, in their sample, were occupying their recreation residence on a permanent basis. Where this use has been identified, administrative action is being taken to correct the situation.

There exists a variety of reasons for permanent occupancy of some recreation residences. From an economic objective, permittees may find that annual fees and ownership costs of a recreation residence are less than nearby housing costs. As housing costs continue to increase, the cost advantage becomes greater towards full-time occupancy of the recreation residence.

Cost advantages, coupled with the notable interest in country living by "non-traditional" owners, create attractive incentives for families to utilize recreation residences as a permanent residence.

In many locations weather conditions limit use to 3 or 4 summer months. As a result year-long occupancy is not a universal problem. In Forests located near urban environments, this problem is more pronounced than in rural remote settings. The problem associated with year-long occupancy is the character change in the environment. Permanent occupancy patterns begin to reflect an urban or suburban community condition. In addition, this type of use creates a greater demand on community services; consequently, local government costs increase. The trend is likely to continue and accelerate.

By "permitting" unauthorized year-long use, permittees tend to be encouraged to make additions and improvements which may or may not be compatible with the nature of the recreation environment. In addition, investments which increase the value of the facility, make amortization values higher, if the permittee attempts to depreciate his asset within the term of the permit.

In response to a review draft of this paper, most of the comments received reflected satisfaction and concurrence with the present policy. Several groups felt a need for portions of summer home tracts to be occupied on a year-long basis for security purposes. Some permittees have been experiencing property damage through vandalism and burglary to unoccupied vacation homes.

The National Forest Recreation Association (NFRA) recommended, that Senior citizens be granted year-long occupancy rights as a matter of course. From a humanitarian framework this suggestion is valid; however, from purposes expressed through legislation, low-cost housing is not a National Forest management objective.

The National Forest Recreation Association suggested that in some populated locations there is a need for housing. It may be in the public's interest to permit year-round occupancy or to sell such land to private developers for residential purposes, when governmental entities own the bulk of suitable developable land.

Current planning processes would identify, through public involvement, if this would be an appropriate and necessary use of the National Forest. Any disposal of National Forest lands would have to be consistent with land adjustment plans, validated though the land management planning process.

The intent of Congress, as expressed in the 1915 Term Permit Act, was to permit a summer home to be constructed on the National Forest. It was not the intent to permit these facilities to be used as a principle residence.

ALTERNATIVES

Alternative 1 - Continue existing policy.

Recreation residences are authorized by the Term Permit Act of 1915 and the Term Special Use Permit for "personal recreational use." The

permit states that recreation residence "shall not be used as a full time residence to the exclusion of a home elsewhere."

Maintaining this current position retains the recreation nature of this use of National Forest lands. More importantly, it remains consistent with the legislative intent of the 1915 Term Permit Act.

Current policy creates less of an impact on local government expenditures for public needs and services than might be created by permanent full-time occupancy.

From the viewpoint of the permittee, use of the recreation residence as a full-time residence is not an option. Consequently, to retain the site the permittee must expend a portion of his income on a second facility, one that he uses only part time.

From a management perspective, effective administration requires expenditures of time and effort to prevent year-long use of recreation residences. Existing cases of full-time occupancy of recreation residences are management problems that have been allowed to develop. Efforts to correct and eliminate unauthorized use will require strong and prompt administrative action. In many cases, emotional confrontatiors between administrators and full-time occupants will develop.

Alternative 2 - Permit limited year-long use.

This alternative would permit full-time occupancy within recreation residence tracts on a limited basis. The principal focus of this

alternative would be to address the concern of permittees for needed security and protection of their investment. Full-time occupancy for the purpose of providing low-cost housing for individuals on fixed incomes, is not consistent with the intent of Congressional direction for the National Forests.

Uses other than recreation residences are not authorized by legislation under the term special use permit. If through the planning process, it was determined that the magnitude of the security problem warranted the dedication of a site for security purposes, that site would be converted from a recreation residence to a residence of a community nature. This determination should be the result of a rigorous evaluation of other opportunities to address and resolve the problem.

Only annual permits are authorized for such privately owned structures used in a community nature. Fees would be comparable to rental rates for private housing. Since the use is greater than recreation residences, it would be expected that fees for this use would be proportionately higher.

This alternative would provide the opportunity for permittees to protect their investment from break-ins and vandalism.

The primary disadvantage associated with this alternative is the change in the nature of the use of National Forest land. Changing a site from a recreation residence to community use leans toward an alienation of the land from public use.

Permittees would be required to convert a term permit into a permit issued on an annual basis. For the permittee holding a term permit, conversion would require him to give up any security associated with tenure.

Year-long or full-time occupancy, even on a limited basis, would impact the environment. In addition, the need for community services could cause fiscal impacts on local units of government. The expenditures are related, primarily, to the size of the extended use and the quality of the services provided.

Unfortunately, year-long occupancy per se is not a deterrent of break-ins or vandalism. Crime statistics in every rural or urban community are evidence that year-long occupancy does not eliminate or reduce the incidence of vandalism.

Alternative 3 - Permit year-long occupancy without constraint.

This alternative would permit full-time occupancy of recreation residences without constraint, provided the impacts could be mitigated. In addition, it would be necessary to insure this use is consistent and compatible with local county land use plans.

This alternative would legitimize current unauthorized situations where permittees are using their recreation residence as the permanent full-time place of occupancy. Permittee concerns regarding protection and security of their investment would be satisfied through the provisions of this option.

There is no legislative authority for this type of use. As discussed in the previous option, this use is outside the intent and purpose for which the National Forests were established. Permanent residences are not considered to be consistent with recreation goals and other management objectives and uses of the National Forests.

This alternative would provide the same advantages described in the previous option, except the scope would be expanded.

The provisions of this alternative would establish a use that would be extremely difficult to terminate in the future. There would be a strong tendency for permittees to treat their permit virtually as fee-simple ownership.

The impacts of full-time occupancy of recreation residence sites on the environment, are not substantially different from the impacts of permanent residential areas. Such year-long use affects water, soil, vegetation and the natural character of the area.

There is extensive discussion in the literature focused on the costs to the environment associated with second homes. The major social impact of permitting National Forest recreation residences to be used as principal dwellings would be on local communities. Increased growth resulting from full-time occupancy could raise the cost of providing a greater level of public service.

For instance, a small community may have no volunteer fire department or a small one. Growth in the area may force it to acquire better equipment. The public costs could jump from very low to very high.

Permanent residential occupancy, by the nature of its use, may cut off access to recreational opportunities traditionally enjoyed by the public. Permanent residential use is contrary to Forest Service management objectives.

## CHAPTER 5

## ISSUE: SUBLEASING

Increased fees, taxes on improvements, and in some cases, taxes on the permittees leasehold interest have increased ownership costs and expenses. Some permittees, in an attempt to defray a portion of these expenses have occassionally rented their recreation residence.

Provision 17 of the special use permit states that the permittee:

> "...may sublease the use of improvements covered under this permit; provided the expressed written permission of the Forest Supervisor has been secured...."

The current policy makes a distinction between permittees renting their cabin to others and making a commercial use of the property. Although business and commercial use of the property is not specifically defined, provision 10 of the special use permit states "personal recreation use is defined as non-commercial use by the permittee, members of his immediate family, and guests."

The Forest Service manual states "occassional rental may be approved, but it must be incidental to the permittees personal use" (FSM 2721.23b(5).) The fee paid by the permittee for private use of public land is based upon the market value of the lot, determined from transaction evidence involving the sale of similar lands sold and used for similar purposes.

In the private sector, owners often lease or rent their property for a portion of the season in an effort to recover some of the ownership costs. Current Forest Service policy also allows leasing or renting as in the private market.

There are several advantages to be gained through subleasing or renting of recreation residences. Not only can the permittee recoup a portion of his expense, but a larger and broader spectrum of the public could have the opportunity to enjoy the benefits of this type of recreation experience. By expanding rental opportunities, it would be possible to increase the recreation visitor days on a given forest without an increase in investment of public funds.

There is a wide range in understanding, or more appropriately, misunderstanding, of intent with regard to rental and subleasing of recreation residences. Semantics and definitions appear to be a leading cause in many of these misunderstandings. A sublease is defined as "a lease by a tenant or leasee of part or all of leased premises to another person for a shorter term than his own and under which he retains some right or interest under the original lease."

Subleasing is also considered to involve conveyance of the same estate held by the leasee to a third person. A permittee cannot unilaterally convey his total interest in a special use permit. It appears that in the framework of offsetting expenses, permittees would be renting their improvements, rather than making longer term conveyances.

District Rangers may be delegated authority to issue special use permits for recreation residences in established tracts. The District Ranger being responsible for the administration of all recreation residences, therefore, has the authority to approve "occasional rental." However, the permit language clearly states, "subleasing requires the approval from the Forest Supervisor."

Rental payments received by the permittee for private use of public lands become an economic advantage. Field units have attempted to define the specific point when renting becomes a commercial venture. One Forest identifies renting as "commercial" if the permittee makes a profit. Profit would be any amount the permittee receives above his expenses. In equation form, profit would be where:

P = I-F-T-M

P = income above cost

I = rental income

F = fees paid for special use permit

T = taxes, including personal property and possessory interest, and

M = annual maintenance cost of the improvement.

Profit would require some other type of fee structure and permit since the authorized use is for personal, non-commerical recreation use.

Generally, Forest Service administrators and permittees alike feel commercial uses of recreation residences are undesirable and

inappropriate. Several administrators felt, however, that increased renting could offer better utilization of National Forest lands.

Many permittees are reluctant to consider renting their residence due to the risk of damage to their improvements. Others expressed renting would result in a change of traditional users in a given tract. A survey of permittees attitudes toward renting in a California tract, showed 82 percent of the sampled permittees would not participate in a rental program. The idea of the Forest Service actively encouraging renting was strongly rejected by this same group.

Although of no statistical significance, the response to this survey reinforces and confirms comments we received from other homeowners and associations throughout the country. The conclusion is that, in spite of steeply rising costs involved with owning a recreation residence on National Forest land, owners are not responsive to the concept of renting to members of the general public. This would also indicate from an economic perspective that the financial burden of a second home ownership is outweighed by the value placed on personal attachment to the improvement.

ALTERNATIVES

Alternative 1 - Continue current rental policy.

As discussed above, the current policy states, "recreation residences are primarily for the use of the permittees. Occasional rental may be approved, but it must be incidental to the permittees' personal use." (FSM 2721.23b(5).) This policy is generally low key, without any encouragement offered to the permittee by the Forest Service to extend the use of their improvement to others. Commercial or business purposes are not permitted under the authorized use granted by the special use permit.

The policy allows the permittees to rent their residence as they so determine with permission of the Forest Supervisor. Permittees are able to selectively rent their facility to individuals with similar value structures. Most of the risk of renting is reduced through this process. Some extended use is made of the permittees' site through this rental procedure.

Renting of recreation residences would also offer families who lack the financial capital to purchase a second home, the opportunity to enjoy this type of recreation opportunity on the National Forest.

This policy generally excludes members of the general public from participating in this recreation activity, due principally to the fact that permittees generally will rent only to close friends and associates. Many permittees are not willing to expose their personal property and accept the expenses of wear and tear created by others through renting.

One problem exists with the permit language and a lack of understanding by permittees of the opportunity to rent their recreation residence. One permittee stated, "I'm afraid to even let my cousin use it for fear of losing the permit." If permittees through various experiences over time have developed these types of concerns regarding renting, many opportunities may be foregone to extend this type of use of others.

Permit language in provision 17 should be clarified. If the intent is for a distinction between sublease and rent, that distinction must be clarified to eliminate misunderstandings between permittees and administrators.

The manual states that, "occasional rental may be approved, but it must be incidental to the permittees' personal use." The special use permit requires that the permittee use the cabin "at least 15 days each year, unless authorized in writing." Contractually, any use other than 15 days could be considered incidental to the permittee's use. Likewise, if permittees begin to rent improvements to defray costs, a uniform standard must be established to ensure equity in determining financial limits. For example, one Forest may allow a permittee to recover all costs, another Forest may allow the permittee to recover only a portion of his cost.

Some units maintain precise ledgers regarding permittees' rentals. If a cabin is rented on a short-term recreational nature, a determination

must be made as to how important it is to monitor the permittee's income.

Alternative 2 - Stimulate permittees' rental of recreation residences.

The objective of this alternative is to encourage permittees to rent their recreation residences during those periods which are incidental to their use.

One method of encouraging permittees to rent their facility and extend the use is to liberalize renting, as long as the facility is used as a recreation residence.

This alternative addresses two major concerns. For the permittee, the rental opportunity provides a means of reducing the financial cost of ownership. As discussed in the previous alternative, tax expense, maintenance costs and fees could be significantly offset.

Secondly, this type of recreation experience could be extended to other members of the public. In some cases, rental of a permittee's facility would extend the opportunity to use and enjoy an under-utilized resource.

The permittee would enjoy a tangible economic advantage--ownership costs could be significantly reduced. Recreation opportunities would be extended to other members of the public. As a result, National Forest lands could satisfy a higher level of demand than offered by current practices.

Some permittees may not wish to see this type of use encouraged. Renting of recreation residences changes the traditional pattern of use, which would tend to modify the "club" effect, that makes many tracts unique and attractive.

Many homeowners have invested substantially in furnishing their cabins; consequently, many would be unwilling to risk the damage renting could bring. Some permittees are concerned with enforcement of permit conditions and responsibilities of renters.

Increased use could create adverse impacts on the environment, particularly if the extended use overtaxed sewage and water capacities. Many of these systems were not designed for sustained use. Extended use could cause soil compaction, damaged vegetation, and increase the potential for soil erosion around the heavily used areas.

Perhaps the most significant disadvantage of this alternative is the inconsistency with longstanding fee policies. Active rental constitutes a commercial venture, which under present policy, requires that the United States receive a portion of the receipts or income as land use fees. To make an exception for recreation residences is to open the door for specialized treatment and policies in other areas.

Alternative 3 - Extend use with third party management.

This alternative is similar to the previous alternative. Permittees would be encouraged to rent their recreation residence during periods

of nonuse. The difference between the two proposals is that coordination, reservations, and bookings would be handled through a third party. In some situations a local realty company, a local resort, or similar organization could function in this role. In others commercial property management firms could provide this service.

The concept this alternative introduces moves towards the direction of commercial use. If public demand indicates this is a desireable recreation activity, then the Land Management Planning process at the Forest level must trigger the question to determine the extent of this need. This type of use has the potential to change the character of the site. Land management planning and specific site examinations would have to determine how much extended use the site could take.

Actual operation would require the permittee to lease his recreation residence to the third party for subsequent rental. The mechanics of this process would be similar to condominium or time-sharing methods used in the private sector.

Many of the same advantages discussed in the previous two options would be experienced through this alternative.

Third party management would be permitted as a commercial venture and charged accordingly.

Administratively, this alternative could be cumbersome. Fee schedules for both permittees and third party management would have to be

approved. Permittees could lose some flexibility and latitude in selecting dates of their planned use.

Another solution to the high cost of ownership which could provide some extended use is multiple ownership of recreation residences. The Forest Service position and policy states that, "a permit will be issued in the name of one individual or to a husband and wife. Permits now in effect with more than one individual as permittees will be so revised and reissued at the earliest opportunity." (FSM 2721.23b (2).)

Multiple ownership is not an uncommon practice in the private sector. The problem could be a trend towards "clubs" buying recreation residences, which would be contrary to the policy stating the "primary purpose of recreation residences is family type of use." (FSM 2721.32b (2).)

## CHAPTER 6

## ISSUE: FEES

No topic commands more interest from permittees than fee levels. The fees charged for the exclusive use of National Forest land to maintain private recreation residences are by Act of Congress (June 4, 1897, and March 4, 1915), by Regulation of the Secretary of Agriculture based on that legislation, and by advice and direction of the Office of Management and Budget.

### Fees and Values

Fees increased substantially during the late 1960's and early 1970's. These increases resulted from two phenomena: (1) Forest Service fees have historically been nominal and substantially below market value, and (2) the very rapid growth in land sales, especially high quality lakefront and "view" properties during the 1960's.

Value is defined as, "the present worth of the rights to all prospective future benefits, tangible and intangible, accruing to ownership of real estate." Recent sale prices of comparable properties indicate the attitudes of informed buyers in the market concerning the present value of the anticipated benefits they expect to receive from recreation properties.

To guide in determining the value of recreation residence use, OMB directed that, where Federal property is leased, a fair market value

shall be obtained. Further, OMB has specifically directed that, "competitive bidding will be used to establish the fair market value in all instances where an identifiable competitive interest exists. Where a competitive interest does not exist, fees should be comparable to those charged for the use of similar private lands. Fees and charges for long-term use should be established in such a manner as will allow for periodic timely adjustment."

There are numerous indicators that reflect concern with the current fee system. Fee appeals, questions of processes, and a variety of related concerns are but surface symptoms of an underlying issue--that is, what is the meaning of fair value? Other fee questions center around the value issue--How much should be charged for the use of National Forest lands? Secondly, what method or process leads to a fair and equitable representation of fair market value?

There are many qualifications of the word "value" as it pertains to real property. Common phrases include assessed value, market value, value in use, rental value, and leasehold value. These qualifiers reflect the character or the proposed use of the value estimate and include concepts that may not be directly concerned with the estimation of market value.

Varied interpretations of value are also reflected in the decisions and opinions of various courts. Not all courts subscribe to identical definitions of value, but generally agree on prices paid for

comparable properties as the major evidence. The problem becomes complicated when property is not commonly exchanged in any identifiable market and does not fall into a rental category where sufficient rental data exists to constitute a basis for analysis using an income approach to value.

If the private market reflects, as it must, underlying trends in preferences, it may also be concluded that increasing pressures will increase land prices in the future. Since land is a limited resource, looking ahead, it seems reasonable that land values will continue to escalate in the future.

Recent appraisal results reflect the trend of rapidly rising land values that is occurring Nation-wide. One indication of the change in recreational land prices is the increase in expenditures for lands purchased under the Land and Water Conservation Fund Act. When the program began in 1966, the average price paid for land outside metropolitan areas was $170 per acre. In 1970 this increased to $356, $490 in 1973, and $848 in 1975.

The basic cause of the rise in land values, hence fee increases, is the change in consumer demand. Many new "nontraditional owners" in the private market have mixed motives for buying recreational land. These motives which include recreation, speculation, and perhaps just investment security, act as a driving force behind land values.

In times of rapid increases in price levels, hedges against inflation take on a special premium of their own, making their prices rise even

faster than increases in their underlying "values" as measured by their utility, would justify. (Healy, Short 1978.)

The relationship between inflation and land prices has led to the expectation that, in the future, increases in land prices will be associated with inflation. For this reason, people seriously consider landownership as a way to accumulate wealth and hedge against inflation.

Recreation land since the 1960's has been especially attractive, as individuals seek to invest in something as an inflationary hedge. The record of upward price changes have strongly influenced the desire of individuals to own land. Inflation encourages present owners to retain their land, which limits the availabity of land for sale. These private market factors have a significant bearing on the market approach to recreation land appraisals.

Land values in the United States have consistently increased during the last two decades. Since 1970 land values have increased 200 percent nationally (U.S. Senate, Committee on Agriculture, Nutrition and Forestry, 1979).

The current method of fee determination establishes market prices through a comparison of transaction data, comparing similar properties with recreation residence tracts. One common complaint from permittees is that the comparables selected do not constitute a true representation of market value due to the monopolistic ownership patterns of

the Federal Government. Another related concern is the fact that recreation residence sites are not available for private purchase. Permittees question the determination of a fee based on market value when the lots are not for sale.

Prior to the mid-1950's there was very little market data available to serve as a basis for fees. A variety of empirical approaches were used to determine summer home fees. Often fees were quite nominal ($15 to $25). Following OMB direction, steps were taken in the late 1960's to bring fees to reflect fair market values. This action has been met with strong disapproval by some permittees who claim the fees are "unreasonable and inflationary." Initial low fees, coupled with the lack of a formula or explicit specification in the permit for adjusting fees, has resulted in pressures from permittees seeking relief from higher fee levels.

In an effort to alleviate the impact of the fee increase, the Forest Service, again following OMB direction, is phasing the increase over a three-year period.

If increases exceed $75 they are spread over a three-year period, gradually advancing to fair market value. The $75 level has been used for the past 12 to 15 years; consequently it does not reflect increased land values nor the lower value of the dollar.

The Forest Service has applied OMB's principles to each fee adjustment. The principles were developed following President Kennedy's message on

natural resources to the Congress. The Natural Resources User Charges study stated that:

> "If the application of these principles results, in any instance, in the establishment of a charge or in an increase in a charge of such magnitude that its immediate full imposition would be impractical, the charge or increase should be achieved progressively over a reasonable period of time."

From the context in which the study and its transmittal letter was written, it appears that intent of the phasing provision was to reduce first time impacts rather than each subsequent fee adjustment.

Recreation residence permits provide for a periodic review of fees every five years, to keep them relatively current with the private market. This interval has resulted in an automatic lag behind comparables. In many areas, it is not uncommon for land values to increase 10 percent or more each year.

As fees are phased upward to adjusted levels, net collections are reduced. The combined effect of these actions have resulted in a significant loss of revenue and receipts. The practice of spreading fee increases is generally limited to recreation residence permits, even though fee levels for other uses increase at the same or greater rate. Although individually minor, collectively and over time, these lost revenues become significant.

The following example illustrates this impact:

As a result of fee reappraisal, the redetermined fee for a particular summer home site was increased from $234 per year to $490 per year, an increase of $256.

Following today's policy, the new fee is phased in three incremental steps;

| Fee Year | Fee Steps | | "Phased" Fee | Full Fee |
|---|---|---|---|---|
| 1977 | $234 | | | |
| 1978 | $234 + 85.33 | = | $319.33 | $490 |
| 1979 | $319.33 + 85.33 | = | $404.66 | $490 |
| 1980 | $404.66 + 85.34 | = | $490.00 | $490 |
| 1981 | | | $490.00 | $490 |
| 1982 | | | $490.00 | $490 |
| TOTAL FEES COLLECTED | | | $2,194.00 | $2,450 |

If full fee values had been charged beginning in 1978, total collections would have been $256 ($2,450 - $2,194) more than currently collected. A difference in this case of 11.7 percent.

Cumulative revenue loss over a five year period varies from 5 to 20 percent, depending upon the amount of change in fee levels. Using 1980 fee collections as a constant, total fees collected for a five-year period would be approximately $19,665,000. Fee losses, due to phasing, could range between $983,250 and $3,933,000. This amounts to a loss of $245,812 to $983,250 in receipts to State and local governments.

Charging fees less than full fair market value, becomes an annual benefit gained by the permit holder at the expense of the general public.

Appraisal

The appraisal used by the Forest Service to determine fee levels is based on an estimate of "market value". There seem to be many definitions of "market value." One of the most widely accepted definition taken from the courts is:

> "the highest price estimated in terms of money which a property will bring if exposed for sale in the open market allowing a reasonable time to find a purchaser who buys with knowledge of all the uses to which it is adopted and for which it is capable of being used."

This definition captures the "willing buyer's" and "willing seller's" concept. Generally speaking, sites used for recreation residences have a marketable value in proportion to their utility and relative scarcity. The amenities and attractiveness often reflect the utility value of the site. Recreation properties have value because they are desired. Recent sales on Priest Lake reflect this concept with lakeside lots selling for $1,100 or more per front foot of lakeshore.

The appraisal, whether done by Forest Service appraisers or by contract appraisers, reflects an opinion or estimate of the value of a

property. It is a conclusion which results from the analysis of factual and relevant data. The validity of the market value estimate is related directly to the confidence in the appraisers conclusion regarding the use.

Recreation residence fees are based on 5 percent of the fair market value of the permitted lots. The current use of 5 percent rather than higher rates of return expected in the private market provides an allowance for permit stipulations, including but not limited to:

> "(1) restricting use to recreation-residence purposes for single family use; (2) requiring prior approval for changes to the lot or structures; (3) complying with regulations laws, and ordinances,...and (6) recognizing the terminable nature of the permit." (FSM 2721.23e.)

Past market data has indicated land developers commonly expect returns of 7-12 percent of the raw land value. In today's inflated money market the expected rates of return would be considerably higher. An analysis of continued use of 5 percent is beyond the scope of this review, but needs to be reexamined in depth.

In March 1977, Richard D. Payne, Ph.D, Associate Professor of Economics at Boise State, completed a report for the Idaho State Parks and Recreation Department entitled, "Recreation Home Developments in Idaho: Five Case Studies." One of the five case studies areas was Priest Lake. As part of that particular case study he looked at the

lease fee charged by the State of Idaho and made the following comment:

> "...if the State and Forest Service lots were being purchased privately, the payments and opportunity costs associated with the purchase would be greater than the lease payment required by the State or Federal Government...."

He continued by stating, "the advantage gained by leasing rather than purchasing becomes even greater when it is realized that the leasee has future sale rights of the lease and its improvements just as the owner of private property would. The potential for a sizeable capital gain is present to the lessee with less of his own capital invested."

"It appears that, given the current lease arrangements, the State and Federal Governments may, in effect, subsidize the investment in recreation properties. Several possible courses of action become apparent: (1) the practice of allowing private resale of Government leases could be curtailed; (2) such sales could be allowed with the State and/or Federal Government taxing away all or part of the windfall; (3) set lease rates more in line with recreation property demand; or (4) discontinue the leasing practice entirely. These questions warrant further study." (Payne, 1977.)

Value of Use

The interpretation of what is meant by "value of the use" and the market value which is used to measure that value, is a concern

expressed by many permittees. Some of the permit holders believe that the conditions of the permit grant the user of the lot a leasehold interest and should be evaluated and appraised as a leasehold interest.

The National Forest Recreation Association (NFRA) pointed out that if:

> "the use granted by a permit is for the purpose of occasional recreation occupancy, if permanent occupancy is not ordinarily permitted, and if subleasing is seldom allowed, then it is not accurate to argue that the value of the property is not affected by the amount of wage. Whether such a property is used 365 days per year is not a matter within the control of permittees. Furthermore, inclement weather and poor access effectively prohibit use for a substantial portion of the year in many areas. While improvements occupy the land for 365 days, the value of the property to the permittee, and thus the amount of that rent, is clearly influenced by the usefulness of the land for its intended purpose. Thus, a full year's rental is due. If the recreation residences were not on the site, there might be no rental at all. Consequently, we urge that valuation should be reduced by an amount proportionate to the part of the year a property is not available for use for reasons inherent in the intended use, the restrictions of the permit, or for other reasons beyond the control of the permittee."

Several suggestions were offered by permittees as methods to measure the "value of use." The Priest Lake Association described a "residual value" approach, through which the value of the improvements would be subtracted from the total price allowed by the permit. The amount which the buyer has paid to the seller for the permit and use is the value which is "commensurate with the value of the use."

By using the residual value as a basis for appraisal the fee would be based on a leasehold interest rather than the market value. Following OMB direction fees and charges must reflect market value. Accordingly, if there was a leasehold value in the land, it would indicate the permit fee was too low. This is because leasehold interest is the difference between contract rent (what the fee is) and market rent (what the fee should be).

Permittees feel the current appraisal process is in error, when we conclude that permittee lots have a market value comparable to that of sold fee owned lots. Even though these limitations are reflected in charging a fee based only on 5 percent of the value, permittees claim the lots are not comparable because all of the bundle of rights which accompany fee owned lands are not transferred to the permit holder.

Lot Size

One of the appraisal factors influencing land values or the market price per lot is lot size.

The Forest Service Manual 2721.23e(2) states:

"Recreation residence fees are based on 5 percent of the fair market value of the permitted lots.. The value of the lots, in the condition as offered to the permittees (usually undeveloped and unimproved), is determined by comparison of the amenities provided by the physical characteristics of the lots and their surroundings to transaction evidence covering sales of similar lots to be used for similar purposes. These characteristics include character and usability of the land, proximity of attractions (lakeshore, view, etc.) or detractions, climate, accessibility, availability of utilities and services, etc. Since the policy is to charge uniform fees within a tract or category of lots, appraisals will not be made of individual lots. Rather, a typical lot within each tract (category) will be appraised without regard to minor differences between lots of the same essential character."

Exception to appraising "typical lot" within each tract is where some lots have significantly different values that others. An example of this is lakeside or waterfront lots versus backlots, or view lots versus non-view lots. The approach currently taken is to stratify the lots into separate value categories, such as waterfront lots and/or backlots, and appraise the "typical" lot in each category.

Stratification of lots by value categories was one of the appraisal's weaknesses noted earlier by the Board of Appeals. The arbitrary

assignment of one value to all lots in a given tract, often resulted in permittees with lots significantly inferior to the "typical" lot, but paying the same fee as permittees with lots significantly superior to the "typical" lot.

In some tracts, particularly those with waterfront sites, lot size may have a significant effect on the value of "typical" lots, depending on whether the difference in size is minor or significant. Large lots on many waterfront sites have high fees because the market value is based on front-foot values. Examples of the differences in value in these situations are very apparent in the vacation-homesite market.

For example, lots within a given tract might vary from one-third to two-thirds acre, with typical lots being about one-half acre in size. Most likely (depending in the layout of the lots), these would not have a significant difference in appraised value (of other amenities were more or less typical), as each site would enjoy essentially the same amenities.

Another tract, however, might present a different situation. In some tracts lot sizes vary from one-forth acre to three acres. Even though lot boundaries are often undefined, most appraisers would recognize that the permittees on the larger, two-to-three acre sites enjoy great amenities (and have, value) than permittees of the one-fourth acre lots. This is especially apparent where the smaller lots are situated very near each other, or have common lot boundaries.

The typical lot as described in terms of the rights and privileges, amenities, restrictions, and detractions is selected and appraised by a

qualified appraiser. Permittees are asked to provide information which will help describe the typical lot and identify the improvements provided or financed by the permittees.

Permittee Involvement

In 1974, the Chief in response to Assistant Secretary Long's request to review fee setting procedures, proposed eight steps to strengthen permittee involvement in the appraisal process.

The "eight-point program" was intended to serve and improve permittee understanding and acceptance of the appraisal process. The Chief stressed the need for aggressively involving permittees in the appraisal process.

The eight points were incorporated in the Manual in early 1979. The FSM now describes several steps to secure permittee involvement. Specifically, to the extent possible, permittees will be involved in:

a. "Selection of the appraiser...

b. Definition of the estate to be appraised...

c. Recognition of the general market area in which sales data may be collected and what constitutes comparability..., and

d. Timely collection of transaction information that will help in arriving at market value for private recreation use of the land involved...."

Current Forest Service practice is to notify permittees, user groups, and interested Members of Congress of the appraisal results and the adjusted fee at least nine months before the effective date of readjustment.

Anti-Inflation Program/Wage and Price Guidelines

In response to the President's anti-inflation program and the wage and price guidelines issued by the Council on Wage and Price Stability, the increase in fees charged in 1979 was limited to no more than 9.5 percent above the established fee for 1978.

Since both Congress and the Executive Office of the President have consistently directed that charges reflect fair market value, the Department asked OMB for their views on a policy conflict regarding the setting of fees.

Specifically, the Office of Management and Budget was asked for their guidance on the continuance of the 9.5 percent limitation on fee increases. OMB responded by stating that the:

> "longstanding policy of the Office of Management and Budget has been to charge fees based on fair market value for the sale of or use of Federal assets where specific beneficiaries can be identified. The Department of Interior is using a fair market value standard for similar uses of lands under the administration of the Bureau of Land Management. It

remains our view that the Department of Agriculture should base fees for special use permits on the fair market value of such uses and that this principle should be adhered to without any arbitrary limit."

OMB discussed the application of wage and price guidelines to fees for special use permits with the Council of Wage and Price Stability. The Council advised that since the price guideline is voluntary, it cannot take precedence over any pricing policy established by Federal, State or local law. They also advised that periodic increases in fees for special use permits based on the fair market value of such uses is not inconsistent with the wage/price guidelines.

## ALTERNATIVES

This section describes the effects of several policy options designed to address the issue of fees. Fee determination seems to be one of the most difficult aspects of recreation residence policy to resolve.

### Alternative 1 - Continue Existing Method

This alternative continues the current practice of obtaining fair/market value through market data analysis. In today's market, land developers would expect returns of at least 15 to 20 percent of the raw land.

In the market, the "value of use" or "value to the recipient" is reflected by the price a purchaser is willing to pay for a benefit. Thus, by utilizing comparable transactions, the market value reflects and acts as a self-defining measure of the "value of use" or "value to the recipient."

Permittees claim that the current method is confusing, inconsistent, and inequitable. They also contend, it is "susceptable to being used arbitrarily, because it does not consider important variables that determine value and it attempts to treat other variables as constraints, which is not a true reflection of their essential nature."

Inadequate permittee involvement, along with poor quality appraisal reports are two factors that contribute to permittee misunderstanding and acceptance of the current process.

The phasing in of fee increases does not appear to be in the interest of the public by not collecting fair market value. Permittees benefit from the incremental adjustment of a fee increase. Revenue return to the Government could be increased $150,000 to $500,000 or more each year, if the practice was eliminated.

Recreation residence permittees are the only group receiving this privilege. The present phasing-in process places recreation residence permits in a unique situation, in comparison with other types of permits for which fee increases are not phased in. Phasing-in of fee increases is inconsistent with fee payments for other Forest Service and Federal agency permittees. It is questionable if the incremental adjustment of fees is consistent with the intent of Congress and OMB direction. Any change in policy or practice eliminating this benefit will generate significant pressure from homeowners associations.

The current method is costly to administer. There are significant costs associated with all phases of the appraisal process. Appraisal costs impact annual appropriations. Time for permittee consultation, appraisal review, and any subsequent appeal, all impact administrative time. Each of these expenses carry large opportunity costs.

The current appraisal approach is sound and is well accepted in the profession. It is standard practice and meets the intent of Congress and OMB direction. Improvement is possible by revising the Manual to clarify the appraisal process, definitions, and develop language

consistency between the Regulations, the Manual, and the special use permit. The Manual could also be revised to give greater emphasis to the rental market as the most direct evidence as to the value of use.

Alternative 2 - Establish Fees Through Competitive Process

This alternative establishes fees through a competitive sealed bidding process. This method requires an appraisal to determine (1) fair market value of the lot and minimum bid (annual use fee) and (2) fair market value of the improvements. Use of the site would go to the bidder offering the highest annual use payment for the fixed term of the permit. Provisions would permit the current permittee to match the highest bid and retain use of the site.

This method requires the current permittee to take one of three possible actions if someone else is the high bidder: (1) match the high bid, (2) sell improvements to the high bidder (at appraised market value), or (3) remove the improvements. The latter action could result in a financial loss to the permittee. Another option, if allowed by the Forest Service, is for the permittee to retain ownership of the improvements and lease them to the high bidder.

This method is consistent with legislative intent and the language of OMB instructions regarding methods to determine fair market value. It clearly resolves the market value question regarding use of the site. On the other hand, it forces action on the current permittee likely, in many cases, to result in administrative appeals and court cases. This method also requires the Forest Service to appraise the improvements on each individual lot, adding greatly to administrative costs.

The administrative complexities of this method, combined with the additional uncertainties it creates, suggests this is an impractical approach. From a legal (fee determining) perspective it may be appropriate but from a time and cost perspective it is not appropriate.

Coments received from permittees and some administrators reflected dissatisfaction and concern with this approach. The complexities of appraising the improvements on each lot, of negotiating values of each permittees' improvements, and of administering the transfer of improvements increases the administration costs of these special use permits.

Alternative 3 - Indexed Annual Adjustment

This alternative would annually adjust the fee through an indexing system. From an established appraisal the fee would be adjusted through an escalator clause linking the appraisal to a price index.

The purpose of this linkage is twofold: (1) to preserve the real values the dollar figures would represent in the absence of inflation and (2) possibly eliminate the need for one appraisal.

There are certain inherent limitations in any method chosen for acheiving these objectives. The most important of these difficulties concern the choice of a price index.

The most commonly used index is the Bureau of Labor Statistics Consumer Price Index (CPI). This index is computed by calculating the cost of a fixed "market basket" of goods and services. When its cost rises, the CPI is increased proportionately.

A variety of Federal programs are indexed by using the CPI. Other programs are adjusted to reflect changes in the market. In some Regions, Forest Service timber stumpage rates are adjusted by other quarterly indexes used to reflect changes in the market.

Specifically, this alternative would establish fees on a 10-year cycle that would coincide with the completion of Forest Land Management plans. By completing the Forest plan, a statement of tenure could be described as part of the appraisal premise. The appraisal would be completed and a fee established by using a market data approach. This fee would become the base fee for the 10-year appraisal cycle.

The base fee and the indexing provisions would be incorporated into the terms of the permit. Every 10 years, a new permit would be

reissued stating the new termination date and the escalating provision.

This method is responsive to the public's interest and would be responsive to the permittee's interest through significant reduction in the size of fee increases. Annual updating would reduce the magnitude of fee adjustment caused by a periodic reappraisal.

By incorporating the appraisal cycle with the Land Management Planning cycle, the term of the permit could be identified with greater certainty. This in itself is responsive to permittees' concern that tenure directly affects market value and, thus, the determination of equitable fees.

By eliminating the mid-point or 5-year appraisal, the government could significantly reduce the costs of special use administration. Phasing would be eliminated. Thus, this approach would closely reflect fair market value.

There are, however, some disadvantages to this method. National or Regional indexes may not reflect local market variations; consequently, there may be some local inequities. As with any program change, there would be some expressed concern at the beginning of the change. Permittees may end up paying more fees than they currently do under the present system.

In order to be effective and credible, the index must be highly visible and readily available. It must provide the permittee infor-

mation as timely and as accurate as the information used by the Forest Service. Most importantly it should remain as intact as possible. It should be free from administrative influence and manipulation while still reflecting general market conditions.

Several of the homeowner groups responding to a draft of this paper offered suggestions concerning methods of establishing recreation residence fees. The National Forest Recreation Association stated that, "the practice of exclusive reliance on conversion of private market transaction data to recreation residence valuation has not properly allowed for the difference between private fee property and permitted sites."

Another of the difficulties of the present appraisal and fee procedures, NFRA expressed, is the subjectivity of the process that translates private property sale prices into values for "comparable permit sites."

Alternative 4 - Cost Approach to Fee Determination

NFRA stated that, "sale prices of recreation residences under permit provide an objective figure to work from, when that data is available." In the absence of sales data, determination of the value of use, while preferable to exclusive reliance on private market transactions, is also subjective in character. In view of the difficulties associated with subjective methods of assessing the worth of a leasehold; an objective approach of recovering the costs of recreation use should be examined. NFRA suggested the procedure that follows:

-- Determine the total Forest Service manpower cost allocable to recreation use of all kinds in each of the organizational levels. ("costs").

-- Determine the total Forest recreation usage in person-days, where a person-day is used by one person for one day. ("use")

-- Then:

$$\frac{\text{Costs}}{\text{Use}} = K.$$ the unit cost of recreation manpower per person-day of recreation use.

-- The share of these costs attributable to a specific recreation residence or group of residences then, would be the unit costs of manpower multiplied by the amount of specific usage or

-- Fee = K x OFU, where OFU (optional feasible use) is the amount of feasible use available to a permittee considering the intended and allowed use and the conditions of use not under control of the permittee.

-- The fee calculated in this manner would represent the minimum charge necessary to pay for the manpower costs needed to support the use. The methodology proposed by

NFRA assumes that the unit costs of administration for different types of use are about the same. So therefore, the cost of various uses are approximately proportional to the amount of such uses.

NFRA indicated several meaningful advantages could be apparent.

-- It is relatively simple, would save time and money, and is susceptible to efficient periodic adjustment.

-- It is essentially objective, being closely related to ascertainable facts.

-- It takes into consideration, the cost to the Government.

-- It would be fair and equitable.

-- It conforms to the principle that those who receive benefits should pay their costs.

-- A fee based on cost factors is consistent with the principles of a non-monopolistic market economy.

Inherent in this alternative is the failure to base fees on fair market value. As mentioned earlier, the Office of Management and Budget and the Congress have consistently directed that charges for special use permits reflect the fair market value of the use authorized.

Equating the cost of administration with fair market value of the use is inconsistent with legislative and executive office direction. The cost approach fails to recognize the benefit received from the use of

the permitted site and would increase the leasehold value of the permit.

Alternative 5 - Establish fees based upon "leasehold value"

Another method suggested by NFRA and Priest Lake Permittees Association is to base annual fees on the "leasehold" value--rather than the market value.

The price a willing buyer pays a willing seller, reflects the value of the improvements and the limited occupancy rights. Under the leasehold premise, the value of the recreation residence land to the user is determined by simply deducting the value of the improvement from the total price paid providing a residual value of the "use" allowed by the permit. The amount which the buyer has paid to the seller for the permit and the authorized use is the value which is "commensurate with the value of the use."

Since the permittees do not own the land, any difference between the permittee improvement value, and the price the permittee might sell the improvement and permit, represents the premium paid for the permit--this could be said to represent or equal the leasehold in the land.

The permittee's improvement value, plus the permit premium could represent the permittee's leasehold interest in the property. Since the improvements belong to the permittee, the permittee's leasehold

interest in the National Forest land is the difference between the total leasehold interest and the improvement value.

In the appraisal profession--as cited in numerous appraisal texts, one measure of the leasehold value is the capitalized difference between the contract rent and market rent. Contract rent below market or economic rent creates a leasehold interest at the expense of the value of the site. When there is no difference between contract rent and market rent, there is no leasehold value.

In the case of recreation residence fees, contract rent is the existing permit fee; market rent is the permit fee the Forest Service is directed and obligated to charge; market rent is the value estimated through the appraisal process. If the permit fee is actually at market rent, as required by OMB, then contract rent is equal to market rent and permittee leasehold in the land would have no value.

Conversely, if there is a leasehold interest of value in the land, then--since it is the capitalized difference between contract rent (existing fee) and market rent (what the fee should be)--this indicates there is a difference and that the permit fee is actually too low.

Lacking evidence of comparable private rentals, the formula used by the Forest Service to determine the recreation residence fee is based upon 5 percent of land value. The percentage represents the expected ratio of market rent to land value.

This is a common method for setting market rent in the private real estate market. At present, rates for rental of private recreational land are estimated to be approximately 10-15 percent of the land value. The formula is a percentage of land value, not a percentage of leasehold value; if the fee is equal to market rent, there would be no leasehold value.

Alternative 6 - Establish common fees for similar lots and tracts within a State of other geographical area.

This is a new option not included in the original draft. Generally a common fair market value fee would be established for all lots of similar character within a broad area. For example, all back lots and tracts removed from a water influence zone in the State of Utah might have a common fee. Another fee would be established for lots fronting on streams or lakes.

This option tends to average fees for lots within the zone. The higher current fees would likely be reduced and lower fees increased. The cost of fee reviews and appraisals could be reduced significantly.

Alternative 7 - Defer fees for later payment.

This is a new option not included in the original draft. The other options discussed are generally framed within the objective of charging fees based upon fair market value of the use. This option is designed to accomplish one major objective: Defer fees. It provides permittees immediate financial relief from increasing fees.

This option provides permittees an opportunity to pay a reduce fee by deferring a portion of their annual fee for later payment. The fee would be established through normal appraisal techniques. However, permittees could negotiate with the Forest officer and agree upon the annual fee to be paid. The difference between the appraised fee and negotiated fee would be carried, with interest, as a lien on the recreation residence. At the time of sale, before title passed, the previous owner would pay the balance due to clear the lien.

This option does have some disadvantages. Revenue generated through fee collection would be deferred, thus affecting returns to counties. Also, required additional record keeping would increase administrative costs. In addition, this option raises a question: Could a new permit be issued while an unpaid balance remained? For example, if the permittee had a 10-year permit and elected to defer payment, could a new permit be issued with the deferred payment outstanding?

Alternative 8 - Accept title to permittee improvements in exchange for off-setting reduction in fees.

This is a new option not included in the original draft. This option provides a process for permittees to transfer title to their recreation residence to the Forest Service in lieu of paying the full annual fee. In exchange for title, the Forest Service would grant the permittee occupancy for a given period of time at a reduced fee.

Application of this option requires appraisals to determine the current market value of the improvements and the annual fee. Also required is selection of a depreciation rate and an interest rate, together used as the discount rate, to determine present value of what the Forest Service will receive in the future; i.e., the depreciated improvements.

Permittee would maintain the improvements and would be required to carry insurance on the value of the improvements.

It is difficult at this time to estimate the permittees' acceptance of this approach. While many permittees are concerned with current fee levels, they also expect to capitalize on their investment. Others may welcome an opportunity to amortize their improvements, such as permittees who are retired.

An example of valuation procedures follows.

SUGGESTIONS FOR VALUATION

1. Estimate the current market value of the permittee's improvements. This is the in-place, contribution value of the improvements as though lot was also owned in fees.

2. Estimate allowance for depreciation expected during the term of future occupancy. This allowance is made for wear and tear and that portion of the useful life of the improvements anticipated to be consumed during the period of occupancy before possession passes to the United States.

3. No adjustments should be made for appreciation (changes in the market prices). For the purposes of computation, permit fees and improvement values would be held constant as of the date of the appraisal.

4. It is contemplated that the proposal entails immediate transfer of title to permittee improvements but that physical possession by the United States would be deferred for a period of time by occupancy and use of the property by the former permittee. Such occupancy and use would be under the Secretary's Rules and Regulations or other controlling documents.

From the perspective of the United States (the buyer), possession of improvements is a future event while payment would be in the form of a waiver of part of the annual special use fee for the period of occupancy.

Interest should be computed on a beginning of year basis as fees are typically collected in advance. The appropriate formula is:

$$FV = PMT \left[ \frac{(1 + r)^{n} - 1}{r} \right] (1 + r)$$

where

FV = Future Value
PMT = Annual Payment
r = Discount Rate
n = Years of Occupancy

Example 1

Assume: Value of Improvements = $20,000
Depreciation Rate = 3% per year
Interest Rate = 12%
Permittee Fee = $500 / yr.

Question: How long would occupancy period be if permit fee is entirely waived in lieu-of-occupancy?

Answer: In this case, solve for n, years of occupancy.

Let: FV = $20,000
PMT = 500
r = 15% (Interest plus depreciation)
n = ?

So: $$20{,}000 - 500\left[\frac{(1 + 15)^{n} - 1}{.15}\right] \quad (1 + .15)$$

$$20{,}000 = 575\left[\frac{1.15^{n} - 1}{.15}\right]$$

$$1.15^{n} = 6.22$$

$$n = \underline{13.07} \text{ years}$$

The results are mildly responsive to the discount rate. For example,

| If | Then |
|---|---|
| r = 12% | n = 14.69 yrs. |
| r = 10% | n = 16.09 yrs. |
| r = 8% | n = 17.89 yrs. |

Example 2

Assume the same conditions as in Example 1 with improvements = $20,000, r = 14%. Fee = $500 1 year. Recall n was found to be 13.09 years.

Question: What if it was decided to let the period of occupancy be 15 years or 20 years?

Answer: Let n equal the desired value and solve for PMT. Using the same formula, we find:

| If | Then |
|---|---|
| n = 15 | PMT = $365.51 |
| n = 20 | PMT = 169.76 |

Thus, when n = 15, the former permittee would be required to pay an annual adjusted fee of $134.49 ($500 - $365.51) while, when n = 20, the adjusted fee by former permittee would be $330.24.

Alternative 9 - Share in the appreciation realized by the permittee in exchange for reduced fees.

Another new option, and one that is beginning to find acceptance in the real estate trade, is: in return for an agreed upon reduction in annual fee, the Government will receive a portion of the appreciation realized by a permittee when the improvements are sold. This allows the permittee to pay a reduced fee during the period of use and then to make up the difference when the permittee is most able to pay. While our current economic situation certainly indicates appreciation at some rate is almost a certainty, this proposal does indicate the willingness of the Government to share the risk that appreciation may not always accrue.

This option also focuses on the primary purpose for summer homes, that is: to provide a vacation cabin in a natural, uncrowded National Forest setting, rather than to provide a speculative investment opportunity.

This option will require a major, one-time appraisal and negotiated agreement on fair market value of each vacation cabin. In the future, it would require that the Forest Service check sales to ascertain that the sale reflect fair market value. The difference between the original agreed upon appraised value and the sale price is the appreciation in value.

This option assumes some minimum annual fee payment that would not be lower than the Government's administrative cost. In any case, the percentage of appreciated value due the Government will equal the percentage reduction in fees.

Alternative 10 - Adjust the standard fee rate (5%) based on the season of use and accessibility.

The fair market value of the lot would be determined by standard appraisal process. The fee would be at a lower rate (less than 5 percent) for lots where the season of use is very short. Some areas are useable 12 months of the year while others are accessable and useable for only 4 to 5 months. Permittees commonly contend that the value of use (5% rate) cannot be the same for lots useable most of the year as those used for lesser periods.

This alternative offered by permittees assumes that fair market value fee appraisals do not give adequate consideration for the differences in the season of use of the various recreation residence tracts. They further contend the lot values for such lots can not reflect the difference in the value of use. Hence, they suggest a fee based on a different rate.

Appraisers are instructed to compare National Forest lots with similar lots sold in the private market. The season of use is taken into consideration when the similar lots are selected. For this reason, the alternative could result in fees less than fair market value.

# APPENDIX A

A1 through A9 - 1980 Recreation Residence Permits and Collections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APPENDIX A1

1980 Recreation Residence Permits and Collections
Region 1

| FOREST | NUMBER OF PERMITS | FEES COLLECTED |
|---|---|---|
| Beaverhead | 25 | $ 1,990 |
| Bitterroot | 9 | 1,025 |
| Idaho Panhandle | 157 | 146,782 |
| Custer | 93 | 22,375 |
| Deerlodge | 146 | 23,061 |
| Flathead | 64 | 12,750 |
| Gallatin | 208 | 61,016 |
| Helena | 10 | 765 |
| Lewis and Clark | 180 | 38,907 |
| Lolo | 36 | 25,578 |
| Nezperce | 7 | 560 |
| TOTAL | 935 | $334,809 |
| AVERAGE | | $358 |

APPENDIX A2

1980 Recreation Residence Permits and Collections
Region 2

| FOREST | NUMBER OF PERMITS | FEES COLLECTED |
|---|---|---|
| Arapaho | 98 | $ 18,815 |
| Bighorn | 272 | 67,233 |
| Black Hills | 167 | 29,822 |
| Grand Mesa | 44 | 7,445 |
| Gunnison | 29 | 5,569 |
| Medicine Bow | 139 | 27,525 |
| Pike | 178 | 53,625 |
| Rio Grande | 81 | 19,804 |
| Roosevelt | 43 | 8,980 |
| Routt | 29 | 8,997 |
| San Isabel | 29 | 7,062 |
| San Juan | 39 | 9,305 |
| Shoshone | 100 | 28,289 |
| White River | 53 | 25,985 |
| TOTAL | 1,301 | $318,456 |
| AVERAGE | | $245 |

APPENDIX A3

1980 Recreation Residence Permits and Collections
Region 3

| FOREST | NUMBER OF PERMITS | FEES COLLECTED |
|---|---|---|
| Apache-Sitgreaves | 110 | $ 19,959 |
| Carson | 58 | 10,625 |
| Cibola | 19 | 1,333 |
| Coconino | 90 | 15,856 |
| Coronado | 424 | 99,163 |
| Gila | 5 | 350 |
| Kaibab | 5 | 175 |
| Lincoln | 43 | 4,470 |
| Prescott | 110 | 13,255 |
| Santa Fe | 182 | 32,987 |
| Tonto | 327 | 50,275 |
| TOTAL | 1,373 | $248,448 |
| AVERAGE | | $181 |

APPENDIX A4

1980 Recreation Residence Permits and Collections
Region 4

| FOREST | NUMBER OF PERMITS | FEES COLLECTED |
|---|---|---|
| Ashley | 58 | $ 7,266 |
| Boise | 121 | 26,435 |
| Bridger-Teton | 138 | 35,659 |
| Caribou | 10 | 800 |
| Challis | 2 | 205 |
| Dixie | 42 | 9,337 |
| Fishlake | 126 | 18,406 |
| Humboldt | 18 | 1,245 |
| Manti-Lasal | 34 | 4,290 |
| Payette | 3 | 328 |
| Salmon | 1 | 75 |
| Sawtooth | 188 | 32,639 |
| Targhee | 215 | 52,989 |
| Toiyabe | 119 | 37,980 |
| Uinta | 104 | 19,918 |
| Wasatch | 360 | 67,277 |
| TOTAL | 1,539 | $314,849 |
| AVERAGE | | $205 |

APPENDIX A5

1980 Recreation Residence Permits and Collections
Region 5

| FOREST | NUMBER OF PERMITS | FEES COLLECTED |
|---|---|---|
| Angeles | 788 | $128,910 |
| Cleveland | 333 | 113,610 |
| Eldorado | 926 | 178,764 |
| Inyo | 379 | 117,583 |
| Klamath | 31 | 4,012 |
| Lassen | 400 | 49,772 |
| Los Padres | 204 | 57,030 |
| Mendocino | 110 | 26,467 |
| Modoc | 8 | 370 |
| Six Rivers | 25 | 6,940 |
| Plumas | 164 | 30,779 |
| San Bernardino | 914 | 344,789 |
| Sequoia | 260 | 46,292 |
| Shasta-Trinity | 175 | 44,741 |
| Sierra | 560 | 195,378 |
| Stanislaus | 760 | 213,957 |
| Tahoe | 159 | 30,877 |
| Tahoe Basin Management Unit | 600 | 196,262 |
| TOTAL | 6,796 | $1,786,533 |
| AVERAGE | | $263 |

APPENDIX A6

1980 Recreation Residence Permits and Collections
Region 6

| FOREST | NUMBER OF PERMITS | FEES COLLECTED |
|---|---|---|
| Deschutes | 286 | $ 98,750 |
| Gifford Pinchot | 46 | 7,950 |
| Mt. Baker-Snoqualmie | 226 | 39,092 |
| Mt. Hood | 573 | 109,676 |
| Ochoco | 1 | 70 |
| Okanogan | 29 | 5,520 |
| Olympic | 68 | 23,225 |
| Rogue River | 77 | 16,585 |
| Siskiyou | 6 | 2,400 |
| Umatilla | 102 | 7,801 |
| Umpqua | 102 | 28,215 |
| Wallowa-Whitman | 48 | 3,362 |
| Wenatchee | 598 | 110,617 |
| Willamette | 248 | 39,979 |
| Winema | 262 | 73,675 |
| Colville | 16 | 2,342 |
| TOTAL | 2,688 | $569,259 |
| AVERAGE | | $212 |

APPENDIX A7

1980 Recreation Residence Permits and Collections
Region 8

| FOREST | NUMBER OF PERMITS | FEES COLLECTED |
|---|---|---|
| Daniel Boone | 16 | $ 800 |
| Chattahoochee-Oconee | 40 | 5,380 |
| Cherokee | 77 | 15,863 |
| NF's in Florida | 178 | 73,413 |
| Kisatchie | 86 | 4,290 |
| George Washington | 5 | 320 |
| Ozark-St. Francis | 52 | 6,897 |
| NF's in North Carolina | 26 | 7,697 |
| Caribbean | 23 | 2,599 |
| TOTAL | 503 | $117,749 |
| AVERAGE | | $234 |

APPENDIX A8
1980 Recreation Residence Permits and Collections

Region 9

| FOREST | NUMBER OF PERMITS | FEES COLLECTED |
|---|---|---|
| Chequamegon | 29 | $ 17,890 |
| Chippewa | 287 | 82,000 |
| Huron-Manistee | 83 | 22,244 |
| Ottawa | 23 | 4,002 |
| Superior | 200 | 43,600 |
| Hiawatha | 103 | 36,627 |
| Allegheny | 54 | 2,700 |
| TOTAL | 779 | $209,063 |
| AVERAGE | | $268 |

APPENDIX A9

1980 Recreation Residence Permits and Collections
Region 10

| FOREST | NUMBER OF PERMITS | FEES COLLECTED |
|---|---|---|
| Tongass (Stikine) | 3 | $ 263 |
| Tongass (Chatham) | 42 | 5,900 |
| Chugach | 139 | 27,233 |
| Tongass (Ketchikan) | 3 | 404 |
| TOTAL | 187 | $33,800 |
| AVERAGE | | $180 |

APPENDIX A10

Range of Fees Charged in 1980 for Recreation Residence Permits by $100 Increments

| Fee Amounts in Dollars | Number of Permits by Regions | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | R-1* | R-2 | R-3 | R-4 | R-5 | R-6 | R-8 | R-9 | R-10 | Total |
| 0-99 | 128 | 12 | 82 | 195 | 206 | 149 | 130 | 6 | 62 | 970 |
| 100-199 | 196 | 375 | 972 | 708 | 2199 | 1067 | 131 | 273 | 43 | 5964 |
| 200-299 | 332 | 747 | 263 | 381 | 1990 | 909 | 57 | 208 | 60 | 4947 |
| 300-399 | 81 | 121 | 55 | 116 | 1524 | 500 | 49 | 126 | 22 | 2594 |
| 400-499 | 51 | 30 | | 72 | 686 | 41 | 114 | 84 | | 1078 |
| 500-599 | 9 | 12 | | 48 | 62 | 22 | 22 | 71 | | 246 |
| 600-699 | 12 | 3 | | 18 | 29 | | | | | 62 |
| 700-799 | 11 | | | | 64 | | | 3 | | 78 |
| 800-899 | 5 | | 1 | 1 | 19 | | | | | 26 |
| 900-999 | 6 | | | | 1 | | | 8 | | 15 |
| 1000-1099 | 10 | | | | 2 | | | | | 12 |
| 1100-1199 | 12 | | | | | | | | | 12 |
| 1200-1299 | 30 | | | | | | | | | 30 |
| 1300-1399 | 20 | | | | 3 | | | | | 23 |
| 1400-1499 | 10 | | | | 10 | | | | | 20 |
| 1500-1599 | 3 | | | | 1 | | | | | 4 |
| 1600-1699 | 8 | | | | | | | | | 8 |
| 1700-1799 | 8 | | | | | | | | | 8 |
| 1900-1999 | 1 | | | | | | | | | 1 |
| 2000-2099 | 2 | | | | | | | | | 2 |
| 2400-2499 | | 1 | | | | | | | | 1 |
| %fees less than $300 | 70% | 87% | 96% | 83% | 65% | 79% | 63% | 62% | 88% | 74% |
| Total # of permits | 935 | 1301 | 1373 | 1539 | 6796 | 2688 | 503 | 779 | 187 | 16,101 |
| Total Fees (M) | 335 | 318 | 248 | 315 | 1787 | 569 | 118 | 209 | 34 | $3,933,000 |
| Average fee paid | 358 | 245 | 181 | 205 | 263 | 212 | 234 | 268 | 180 | $244 |

*Does not include stayed fees collected in 1980 for Priest Lake permittees.

APPENDIX A - 11

## Comparison of Actual Fees Under Current Policies With Anticipated Fees Using Annual Consumer Price Index Adjustments, For Three Actual Lots Over A 10-Year Period

| YEAR | CPI Factor | LOT A Actual Fee | LOT A Adjusted Fee | LOT A Difference | LOT B Actual Fee | LOT B Adjusted Fee | LOT B Difference | LOT C Actual Fee | LOT C Adjusted Fee | LOT C Difference |
|---|---|---|---|---|---|---|---|---|---|---|
| 1970 | 5.9 | $ 50* | $ 50* | $ 0 | $180* | $180* | $ 0 | $45 | $49.42** | $+ 4.42 |
| 1971 | 4.3 | 50 | 52.95 | + 2.95 | 180 | 190.62 | +10.62 | 45 | 52.34 | + 7.34 |
| 1972 | 3.3 | 50 | 55.23 | + 5.23 | 180 | 198.82 | +18.82 | 45 | 54.59 | + 9.59 |
| 1973 | 6.2 | 50 | 57.05 | + 7.05 | 180 | 205.38 | +25.38 | 45 | 56.39 | +11.39 |
| 1974 | 11.0 | 50 | 60.59 | +10.59 | 180 | 218.11 | +38.11 | 45 | 59.89 | +14.89 |
| 1975 | 9.1 | 95 | 67.25 | -27.75 | 225 | 242.10 | +17.10 | 45 | 66.48 | +21.48 |
| 1976 | 5.8 | 135 | 73.37 | -61.63 | 225 | 264.13 | +39.13 | 45 | 72.53 | +27.53 |
| 1977 | 6.5 | 175 | 77.63 | -97.37 | 225 | 279.45 | +54.45 | 45 | 76.73 | +31.73 |
| 1978 | 7.7 | 175 | 82.67 | -92.33 | 225 | 297.62 | +72.62 | 50* | 50.00* | 0 |
| 1979 | 11.3 | 175 | 89.04 | -85.96 | 225 | 320.54 | +95.54 | 50 | 53.85 | + 3.85 |
| 1980 | | 283* | 500.00* | +217.00 | 280* | 450.00* | +170.00 | 50 | 59.94 | + 9.94 |

* Fee established by an appraisal
**Base fee established in 1968 by an appraisal